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FINANCIAL



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Sponsoring Mutual Fund Dealer



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When you look at rolling 10-year periods over the last century, patient investors who stayed in the market for a decade came out ahead in real terms roughly nine times out of 10. I'm not making any guarantees here, but it's reasonable for investors to expect positive returns, and the US market has historically delivered good outcomes.

The data also show that public markets have behaved exactly the way we would hope. Over the last century, US stocks returned about 10% per year, US bonds about 6%, and Treasury bills have kept pace with inflation. These returns make sense. Stocks are riskier than bonds, and bonds are riskier than cash, or money market accounts. In a well-functioning market, more risk should lead to more reward.

Year-to-year market movements can look like chaos -up 25% one year, down 30% the next. **But when you look at the numbers from a long-term perspective, you can see the order underneath.**

This order depends on conditions that make fair pricing possible: a system built on enforceable agreements, investor protections, transparency, enormous trading volumes, and sound accounting standards. In such a system, insider trading is discouraged and punishable, competition is fair and fierce, and investors benefit from information and access. These conditions make the wisdom of crowds possible. Millions of investors, each looking out for their own self-interest, compete intensely on pricing. All the good news and bad news about any given company gets reflected in the price. All the positive and negative expectations for a company's future prospects get baked in. You don't have to take somebody's word for it.

This system benefits more than just investors. An investor's return is a company's cost of capital. When companies issue stock, they effectively give up 10% a year, the rate of return demanded by investors, to get that capital. Companies are willing to issue shares because they need capital to grow their businesses, and investors are willing to buy the shares because they expect a return on their investment. Both sides get a fair deal with an attractive return for investors and a reasonable cost of capital for the company. Bond financing costs less, as you'd expect for lower risk. The system works because it's fair, and that's helped it last.

What powers it all is human ingenuity. People have ideas, form companies, and need capital to grow. Investors provide that capital and share in the upside. Millions of people at thousands of companies work every day to improve their products, enhance their services, and lower their costs -constantly adapting to a changing world. The future is always uncertain and not every company will succeed, but the incentive system rewards innovation and problem-solving. Collectively, this drive to do better is the engine of market returns. That human ingenuity is what you're really investing in when you buy the market and investors can think of markets as the quantification of human progress.

What about the future? As long as necessary market conditions are maintained, there's no reason to think it will be any different. When you invest in the broad market, you're investing in human ingenuity and I remain confident in the power of human ingenuity to harness creativity and resilience to drive progress and markets over the long run.

That's worked for the last century. I have all the data I need to expect it will work for the next one.

Thanks for reading!

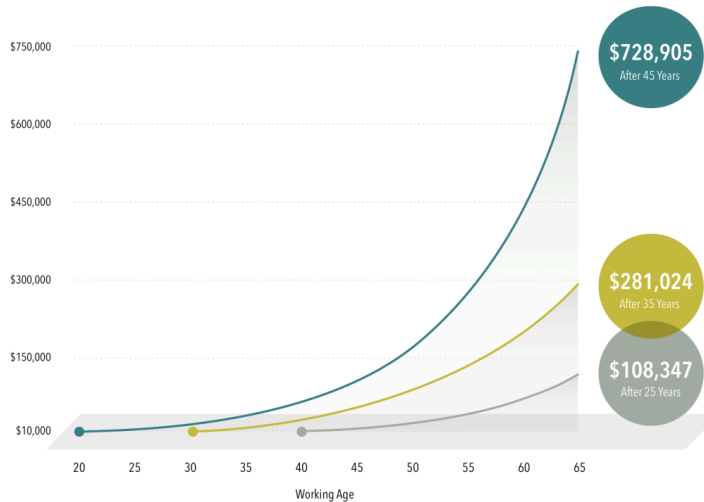
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The Power of Compounded Returns

HYPOTHETICAL GROWTH OF \$10,000 OVER 45, 35, AND 25 YEARS
10% Annual Compounded Return

Dimensional



Compounding is a powerful force. When returns are reinvested, the investment's value can grow exponentially over time.

- Consider a hypothetical \$10,000 investment earning 10% a year—the S&P 500 Index's approximate annualized return since 1926. Over a 45-year working lifetime (age 20 to 65), \$10,000 would have grown to \$728,905.
- At a 10% annual return, an investment doubles in value about every seven years. So, the earlier you start investing, the larger the potential compounding effect.
- For example, investing \$10,000 at age 20 would result in a much higher end value at age 65 than investing the same amount at age 30 or 40.

Compounding can help turn a small investment into substantial wealth. But to harness that power, the sooner you start, the better.

Source: Dimensional

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