VOYAGER® CAPITAL MANAGEMENT, LLC

FOURTH QUARTER 2021

QUARTERLY MARKET REVIEW: FOURTH QUARTER 2021

For Packer fans, this looks to be another great year with Aaron Rodgers leading the way to the NFC playoffs as the number one seed. While many Packer fans may have expected the team to be where they are today, there were many reasons one could have found for stocks to retreat in 2021. Instead, 2021 proved to be another strong year, as the S&P 500 Index® returned 28.7%.

Led by the U.S. market, global stocks rebounded in December to end the fourth quarter with robust gains. Mounting inflation, supply chain worries, a hawkish Fed and uncertainty surrounding COVID-19's omicron variant contributed to bouts of volatility. However, stocks persevered. Meanwhile, U.S. bond returns were nearly flat for the quarter.

3.14% INTERNATIONAL DEVELOPED STOCKS	9.28% US STOCK MARKET	17.22% US REAL ESTATE	.01% US BOND MARKET
	-1.31% EMERGING MARKETS STOCKS	.07% GLOBAL BOND MARKET EX US	

- The S&P 500 Index, which notched 70 record highs in 2021, recovered from a late-November sell-off to return 11% for the fourth quarter. Robust corporate earnings and broadly positive economic data aided the backdrop.

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INSIGHTS FROM VOYAGER

Evidence-Based Investment Insights

Continuing from last quarters Insight #1: You, the Market, and the Price You Pay, we move on to Insight #2: Ignoring the Siren Song of Daily Market Pricing.

In "***You, the Market, and the Prices You Pay***," we explored how group intelligence governs relatively efficient markets (as well as jellybean jars) in an imperfect world. Next, let's look at how prices are set moving forward. This, too, helps us understand how to play with rather than against the wisdom of the market, as you seek to buy low and sell high.

News, Inglorious News

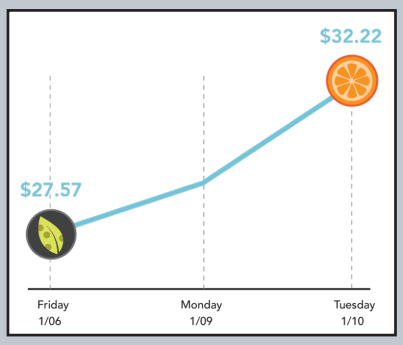
What causes market prices to change? It begins with the never-ending stream of news informing us of the good, bad, and ugly events that are forever taking place. For example, when there are reports that a fungicide is attacking Florida trees, orange juice futures may soar, as the market predicts that there's going to be less supply than demand.

Markets React to Events

"Orange juice futures surge to record on fungicide fears"

–Reuters, January 10, 2012

Prices adjust when unexpected events alter the market's view of the future.



But what does this mean to you and your investment portfolio? Should you buy, sell, or hold tight? Before the news tempts you to jump into or flee from breaking trends, it's critical to be aware of the evidence that tells us the most important thing of all: ***You cannot expect to consistently improve your outcomes by reacting to breaking news.***

Great Expectations

How the market adjusts its pricing is why there's not much you can do in reaction to breaking news. There are two principles to bear in mind here.

First, it's not the news itself; it's whether we saw it coming. When a security's price changes, it's not whether something good or bad has happened. It's whether the next piece of good or bad news is better or worse than expected. If it's reported that the aforementioned orange tree disease is continuing to spread, pricing changes may be minimal; everyone was already expecting doom and gloom. On the other hand, if an ingenious new fungicidal treatment is released, prices may change dramatically in reaction to the unexpected resolution.

Thus, it's not just news, but unexpected news that alters future pricing. By definition, the unexpected is impossible to predict, as is how dramatically (or not) the market will respond to it. Once again, group intelligence gets in the way of those who might still believe they can outwit others by consistently forecasting future prices.

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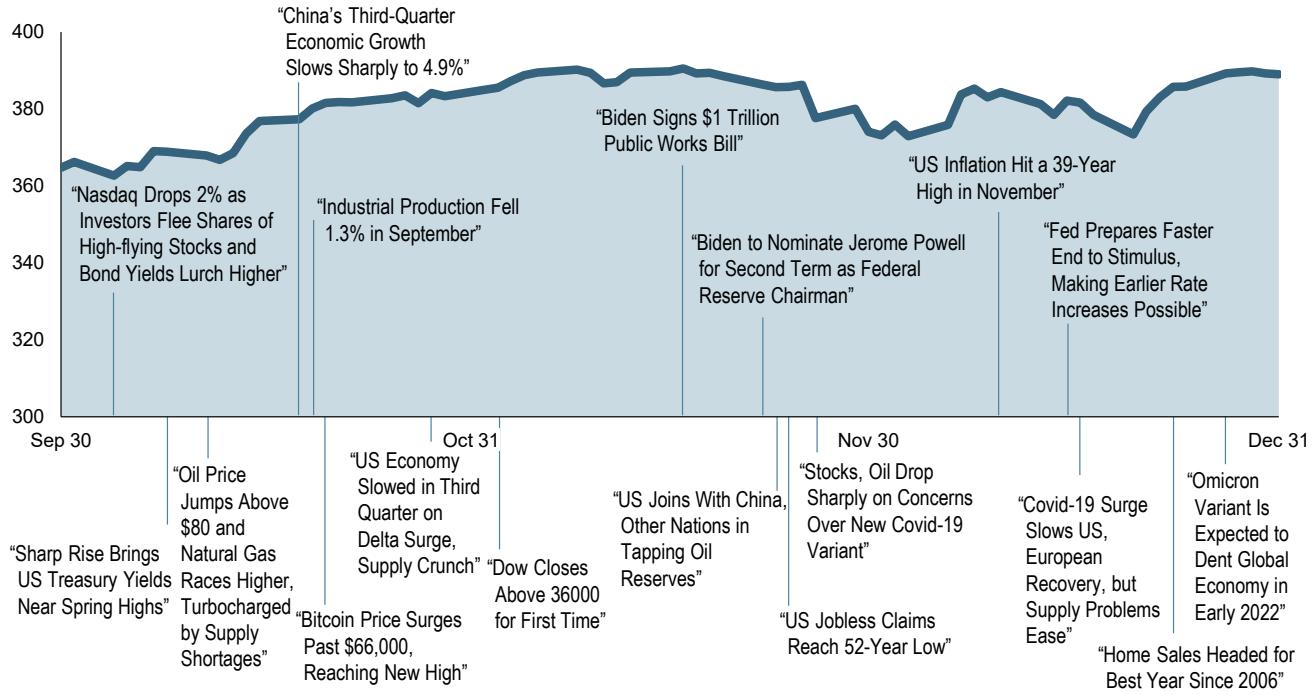
WORLD STOCK MARKET PERFORMANCE

MSCI All Country World Index with selected headlines from Q4 2021



These headlines are not offered to explain market returns. Instead, they serve as a reminder that investors should view daily events from a long-term perspective and avoid making investment decisions based solely on the news.

- Soaring inflation and a labor force participation rate that persisted well below pre-pandemic levels remained headwinds for the U.S. recovery.

- The Fed warned inflation pressures appear entrenched and signaled it would act more aggressively to taper monetary support. Policymakers suggested three interest rate hikes were now likely for 2022.

- Non-U.S. developed markets stocks generally advanced on solid earnings reports and confidence in the economic recovery, even as some countries resumed coronavirus restrictions. Emerging markets stocks declined amid concerns about the omicron variant and supply chain disruptions.

- The broad U.S. bond market was nearly flat for the quarter. The 10-year Treasury yield ended the quarter slightly higher versus third quarter-end. Reflecting expectations for Fed rate hikes, the two-year Treasury yield climbed 55 bps.

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"Son, you're old enough now for The Talk: everything you need to know about compound interest."

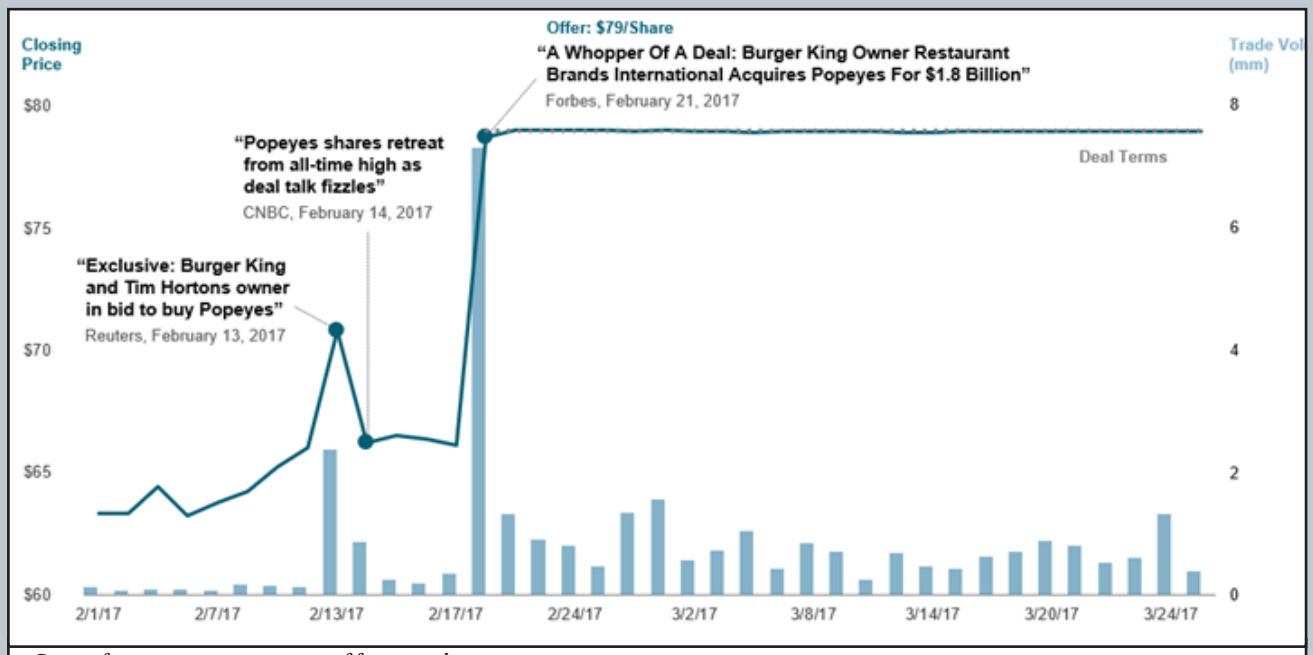
The Barn Door Principle

The second reason to consider breaking news irrelevant to your investing is what we'll call "The Barn Door Principle." By the time you hear the news, the market already has incorporated it into existing prices, well ahead of your ability to do anything about it. The proverbial horses have already galloped past your open trading door.

This is especially so in today's micro-second electronic trading world. In his article, "The impact of news events on market prices," financial author Larry Swedroe explored how fast global markets respond to breaking news. Pointing to evidence from a number of studies among several developed markets, the universal response was nearly instantaneous price-setting during the first handful of post-announcement trades. In the U.S. markets, it was even faster than that.

STOCK PRICES ADJUST QUICKLY

Popeyes Louisiana Kitchen Stock Price From Merger Announcement Until Completion



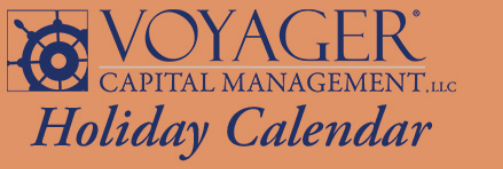
Past performance is not a guarantee of future results
This information should not be considered a recommendation to buy or sell a particular security. The securities identified do not represent all securitites purchased or sold for client accounts. it should not be assumed that an investment in the securities identified was or would be profitable. Source: data are from Bloomberg L.P. Bloomberg data provided by Bloomberg.

In other words, unless you happen be among the very first to respond to breaking news (competing, mind you, against automated traders who often respond in fractions of milliseconds), you're setting yourself up to buy higher or sell lower than those who already have set new prices based on the news – exactly the opposite of your goal.

YOUR TAKE-HOME

Rather than trying to play an expensive game based on ever-changing information and cut-throat competition over which you have no control, a preferred way to position your life savings is according to a number of market factors that you can better expect to manage in your favor.

Next Insight #3 Financial Gurus and Other Fantastic Creatures where we will explore the formidable odds you face if you (or your hired help) try to outsmart the market's lightning-fast price-setting efficiencies.



Holiday Calendar

Presidents' Day	*2/21*
Good Friday	*4/15*
Memorial Day	*5/30*
Independence Day	*7/04*
Labor Day	*9/05*
Thanksgiving	*11/24-25*
Christmas Day (observed)	*12/26*

U.S.

	QTD Value	QTD Growth	YTD Value	YTD Growth
Large	7.77%	11.64%	25.16%	27.60%
Small	4.36%	0.01%	28.27%	2.83%

U.S. stocks rallied for the fourth quarter and ended 2021 with another strong double-digit yearly gain.

Large-cap stocks significantly outperformed small-cap stocks for the quarter. Growth stocks outperformed value stocks in the large-cap arena, but they lagged value among small caps.

For the year, large-cap stocks broadly outperformed small caps. Growth stocks outperformed their value peers in the large-cap universe, while value sharply outperformed growth among small caps.

Non-U.S. Developed Markets

	QTD Value	QTD Growth	YTD Value	YTD Growth
Large	2.22%	5.11%	14.41%	12.92%
Small	0.72%	0.05%	13.27%	8.83%

A December rally helped international developed markets stocks deliver a fourth-quarter gain. The broad index was up nearly 13% for the year.

Large-cap stocks generally outperformed small-cap stocks for the fourth quarter. Growth stocks outperformed value in the large-cap universe, but they underperformed among small caps.

For the full year, large-cap stocks outperformed small caps. The value style outperformed the growth style across size categories.

Emerging Markets

	QTD Value	QTD Growth	YTD Value	YTD Growth
Large	-0.25%	-2.25%	2.63%	-9.85%
Small	-0.20%	2.85%	17.00%	20.41%

Despite a December rally, emerging markets stocks broadly declined in the fourth quarter. They also declined modestly for the full year.

For the quarter, small-cap stocks advanced and outperformed large-cap stocks, which declined. Value outperformed growth in the large-cap space but lagged among small caps.

For the 12 months, small-cap stocks sharply outperformed large-caps, which declined. Value stocks outperformed growth stocks among large caps but underperformed in the small-cap arena.

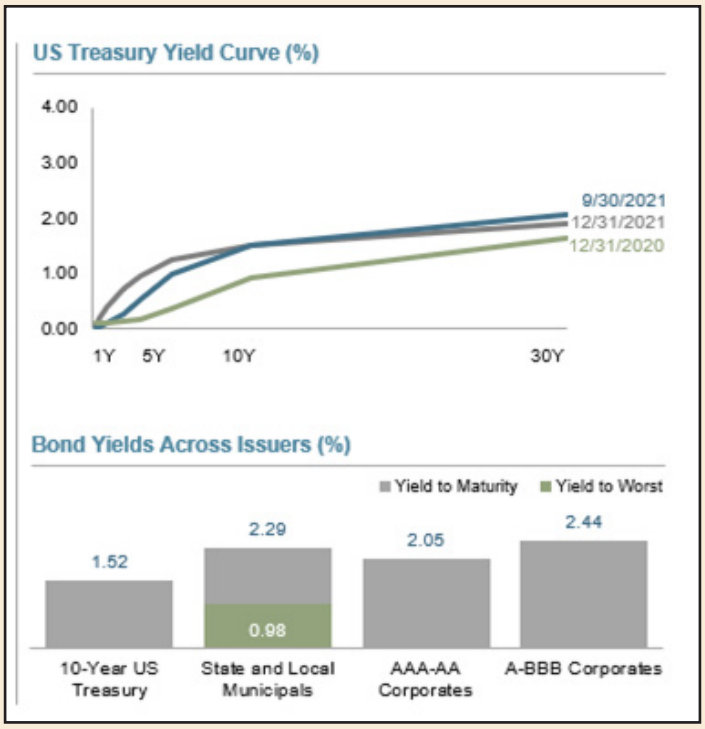
Data as of 12/31/2021. Performance in USD. Past performance is no guarantee of future results. Source: FactSet. U.S. Equity, International Developed Markets and Emerging Markets Equity style boxes are represented by Russell, MSCI World ex USA and MSCI Emerging Markets indices, respectively.

US REIT's continued their positive performance with a strong 17.22% return in the fourth quarter. REIT's were the best performing asset class in the fourth quarter and for all of 2021. Industrial (30.09%) and Self- Storage (27.29%) were the best performing sectors' and the only negative sector was Home Financing (-2.36%).

Why REIT's? Over the past few decades, assets have become increasingly correlated. Fortunately, REITs provide access to meaningful diversification opportunities.

Hawkish Fed comments and surging inflation helped push intermediate U.S. Treasury yields higher (and longer-dated yields lower) in the fourth quarter. Overall, the yield curve changes led to a modest fourth-quarter gain for the broad Treasury sector, while the investment-grade bond market was nearly flat.

- The Bloomberg U.S. Aggregate Bond Index declined in December but ended the quarter relatively flat. Quarterly gains among corporate bonds and Treasuries more than offset losses among mortgage-backed securities.
- The yield on the benchmark 10-year U.S. Treasury note ended the quarter at 1.51%, up 2 bps from the end of September. The two-year Treasury yield rose 55 bps to 0.73%, and the yield curve flattened.
- Annual headline inflation climbed to a nearly 40-year high of 6.8% in November, triggering an accelerated taper timetable from the Fed. Policymakers also suggested they likely would start hiking rates by mid-2022.
- Amid soaring inflation, TIPS outperformed nominal Treasuries in December and for the fourth quarter.
- Municipal bonds outperformed Treasuries for the month and the quarter.
- Investment-grade corporates declined slightly in December and rose modestly for the fourth quarter. High-yield corporates outperformed their investment-grade peers.



MICRO-ACTIONS

When tackling big, audacious goals, you don't need big, audacious actions. All you need is the contagious magic of micro-actions.

Let me give you an example.

When I travel, I often don't feel like exercising, even though I know I'll feel way better if I do. So, in the morning, I don't commit to a program to lose 12 pounds in twelve days or promise myself to run for 40 minutes. I just put on my gym clothes.

That's it.

And then, since my gym clothes are on, I almost always decide to just walk to the gym and take a look.

What happens next is what almost always happens when I step into a gym: I see the bikes and think, "I bet it will feel good to get on one of those for a few minutes". So I do.

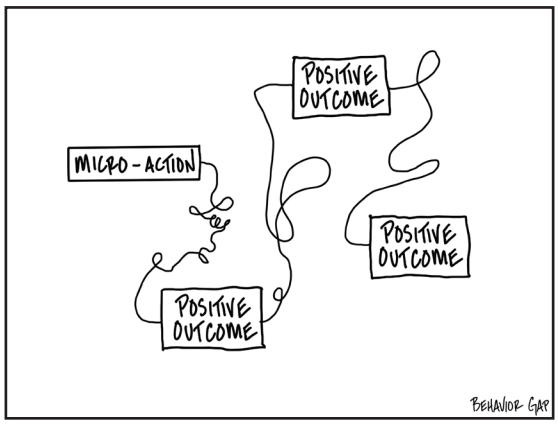
And other exercises naturally follow that.

After I exercise, I think, "Man, it would feel great to stretch", so I do that, too. And then, since I'm on a roll, I decide to eat a healthy breakfast instead of sugary garbage. Later at work, I'm extra productive since my body feels great.

See what I mean about contagious?

There's a reason 80% of New Year's Resolutions fail. The problem isn't the goals, it's the way we go about trying to tackle them. We try to go big and burn out, forgetting that "slow and steady wins the race".

The magic here is in breaking down big, hard, sometimes even scary goals into attainable pieces. Find something small and attainable you can do, start there, and let the contagious magic of micro-actions do the rest.



ALL-TIME-HIGH ANXIETY

If you have been a client of Voyager for more than ten years, you may remember a presentation from Westin Wellington from DFA. Weston presented for Voyager at the Grand Geneva Resort. The following is Weston's latest contribution.

By Weston Wellington
Vice President Dimensional Fund Advisors

Investors are often conflicted about record-high stock prices. They are pleased to see their existing equity holdings gain in value but apprehensive that higher prices somehow foreshadow a dramatic downturn in the future. And they may be reluctant to make new purchases since the traditional "buy low, sell high" mantra suggests committing funds to stocks at an all-time high is a surefire recipe for disappointment.

Financial journalists periodically stoke investors' record-high anxiety by suggesting the laws of physics apply to financial markets—that what goes up must come down. "Stocks Head Back to Earth," read a headline in the Wall Street Journal in 2012.1 "Weird Science: Wall Street Repeals Law of Gravity," Barron's put it in 2017.2 And a Los Angeles Times reporter had a similar take last year, noting that low interest rates have "helped stock and bond markets defy gravity."3

Those who find such observations alarming will likely shy away from purchasing stocks at record highs. But shares are not heavy objects kept aloft through strenuous effort. They are perpetual claim tickets on companies' earnings and dividends. Thousands of business managers go to work every day seeking projects that appear to offer profitable returns on capital while providing goods and services people desire. Although some new ideas and the firms behind them end in failure, history offers abundant evidence that investors around the world can be rewarded for the capital they provide.

Whether at a new high or a new low, today's share price reflects investors' collective judgment of what tomorrow's earnings and dividends are likely to be—and those of all the tomorrows to come. And every day, stocks must be priced to deliver a positive expected return for the buyer. Otherwise, no trade would take place. It's difficult to imagine a scenario where investors freely invest in stocks with the expectation of losing money.

Investors should treat record high prices with neither excitement nor alarm, but rather indifference. If stocks have a positive expected return, reaching record highs with some frequency is exactly the outcome we would expect. Using month-end data over the 94-year period ending in 2020, the S&P 500 Index produced a new high in ending wealth in more than 30% of those monthly observations. Moreover, purchasing shares at all-time records has, on average, generated similar returns over subsequent one-, three-, and five-year periods to those of a strategy that purchases stocks following a sharp decline, as ***Exhibit 1*** shows.

Humans are conditioned to think that after the rise must come the fall, tempting us to fiddle with our portfolios. But the data suggest such signals only exist in our imagination and that our efforts to improve results will just as likely penalize them.

Investors should take comfort knowing that share prices are not fighting the forces of gravity when they move higher and have confidence that record highs only tell us the system is working just as we would expect—nothing more.

EXHIBIT 1

All Rise

Average annualized returns for S&P 500 Index after market highs and declines

	1 year later	3 years later	5 years later
After new market high	13.9%	10.5%	9.9%
After 20% market decline	11.6%	9.9%	9.6%

Past performance is no guarantee of future results.
For illustrative purposes only. Index is not available for direct investment. Performance does not reflect the expenses associated with the management of an actual portfolio. S&P data © 2022 S&P Dow Jones Indices LLC, a division of S&P Global. All rights reserved.

1. Jonathan Cheng and Christian Berthelsen, "Stocks Head Back to Earth," *Wall Street Journal*, February 11, 2012.
2. Kopin Tan, "Weird Science: Wall Street Repeals Law of Gravity," *Barron's*, August 7, 2017.
3. Russ Mitchell, "Tesla's Insane Stock Price Makes Sense in a Market Gone Mad," *Los Angeles Times*, July 22, 2020.