

MARKET UPDATE: Importance of Safety Assets

Given the swift and sharp stock sell off on Thursday and Friday, we wanted to share perspective about how we buy time, manage risk and stay opportunistic.

We do not invest in bonds or money market funds expecting the best long-term returns. Historically, asset classes like stocks, real estate, and non-traditional investments such as private equity, private debt, and reinsurance have delivered superior returns over time.

So why allocate anything to bonds and money markets? For us, it comes down to three key reasons:

1. Buy Time

No one knows what the stock market will do tomorrow, next month, or even over the next few years. What we do know is that swift, sharp selloffs like last Thursday, Friday and today are part of the ride. That's why we allocate enough to money market funds and high-quality bonds to *buy time*—time that allows us to remain invested in stocks and other long-term growth assets. How much time we "buy" depends on your personal situation and your tolerance for risk.

2. Math

The math of market declines is unforgiving. A 50% drop in a \$1 million portfolio leaves you with \$500,000—and getting back to even requires a 100% gain.

By not putting 100% into stocks, we reduce the magnitude of potential drawdowns and shorten the recovery time.

- A 33% drop requires a 50% gain to recover.
- A 10% drop? Only an 11.1% recovery needed.

Smart asset allocation doesn't just feel safer—it *is* mathematically safer.

3. Rebalancing

Your bonds are likely worth more today than they were at the beginning of the year.

Meanwhile, your stock allocation is down. That's exactly when rebalancing works best: we can trim from the "safety bucket" and buy stocks at more attractive valuations.

Rebalancing isn't just a discipline—it's a strategy for turning volatility into opportunity.

So how should you be thinking about your stock exposure right now?

If you have enough in your safety bucket to fund the next several years of your needs, we don't have to be as concerned about what stocks are doing next week or next month. We are not invested in stocks to fund your lifestyle next month or for the next several years. This should help us think about what our stocks will be worth years down the road.

For many, the next several years of future needs are covered by earned income. Those investors still need some allocation to bonds and cash for income shocks—and for reasons #2 and #3 on the previous page. For others, those who rely on their portfolio to generate income, we need to build a bigger safety bucket to cover all three reasons. Once we've "bought enough time," we can allocate everything else to the growth bucket and let time and the power of compounding returns do their thing.

Investing \$1 Million Volatility & Returns			
Year 1	Year 2	Year 3	Value
-33%	20.0%	20.0%	\$ 964,800
-15%	11.0%	11.0%	\$ 1,047,285

Cascade Financial Partners, LLC is a Registered Investment Adviser with the United States Securities and Exchange Commission. However, such registration does not imply a certain level of skill or training and no inference to the contrary should be made. Additional information about Cascade Financial Partners, LLC is also available on the SEC's website at <https://adviserinfo.sec.gov> Advisory services are only offered to clients or prospective clients where Cascade Financial Partners, LLC and its representatives are properly licensed or exempt from licensure. No advice may be rendered by Cascade Financial Partners, LLC unless a client service agreement is in place. The commentary provided is for informational purposes only and should not be considered personalized investment advice. The information contained herein reflects Cascade's views as to the date of distribution. Such views are subject to change at any time without notice due to changes in market or economic conditions. Cascade does not provide tax or legal advice. Any forward-looking statements or forecasts are based on assumptions and actual results are expected to vary from any such statements or forecasts.