

# FORTITUDE FOCUS



Investment Department

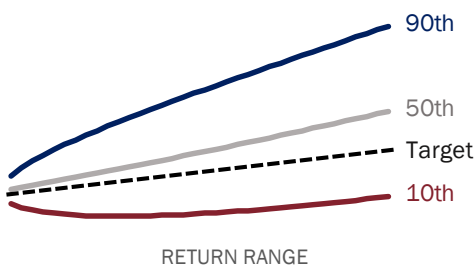
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## THE STORY

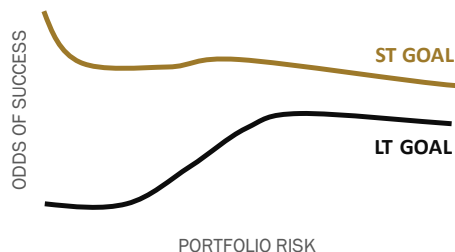
### Markets Are Probabilistic



### Odds Of Success Is What Matters



### Tradeoff Between ST & LT Risks



## Decoding ‘Vol’ – How To Think About Risk:

Professionals broadly define portfolio risk in terms of the expected standard deviation (i.e., volatility) of returns. Whether it’s high or low, static or dynamic, rising or falling, investors inevitably hear about the current state of ‘volatility’ in the market.

However, while this industry jargon is strewn about ad nauseum by commentators, its practical meaning can often be lost in translation. Thus, rather than focusing on the statistical input itself, we turn our attention towards its more useful implications.

The real value of standard deviation lies in its ability to approximate the range and probability of future outcomes. Thus, investment risks can be better understood through these probabilistic interpretations.

For instance, rooted within this view is the paradoxical relationship between short and long-term risks.

While taking on less portfolio risk may increase the likelihood that we support our short-term needs, it also generally lowers our expected returns and thus decreases the odds that we can achieve our long-term goals.

This simplified explanation of a critical financial problem demonstrates the potential advantages of shifting the way we approach portfolio uncertainty.

In short, by learning to think about investment risk in terms of the probability of realizing our target rate of return, we can better assess our true risk tolerances and more efficiently assign our asset allocations.



## UPCOMING EVENTS

Monthly CPI – 3/12

FOMC Meeting – 3/20

Holiday (Good Friday) – 3/29

## “The Only Thing Certain In Finance Is Uncertainty”

- Harry Browne



# WHAT HAPPENED?

### UK Enters A Technical Recession:

After GDP contracted slightly (0.3%) for a second consecutive quarter, the UK entered a technical recession. This comes as the nation's economy navigates continuing inflationary challenges and higher real rates ([CNBC](#)).

### Odysseus Makes First-Ever Private-Sector Lunar Landing:

Using a SpaceX Rocket, US firm Intuitive Machines became the first private company to successfully land a spacecraft on the Moon ([BBC](#)).

### Capital One To Acquire Discover Financial In \$35B Stock Deal:

The all-stock deal is expected to close in late 2024 and is likely to draw regulator scrutiny as these two firms are among the largest credit card issuers in the US ([CNBC](#)).

### Germany Legalizes Recreational Marijuana Use:

Germany joined a small group of countries that have legalized marijuana use after the Bundestag passed a law allowing individuals to grow & hold limited quantities of the drug. ([Reuters](#)).



## EQUITIES CLIMBED

US equity markets rose in February with the S&P 500 up **5.3%**. Global ex-US equity markets also rallied with the MSCI World ex-US Index up **2.3%**.

	MONTH*	YTD*
US Large	5.3%	7.1%
US Mid	5.0%	3.5%
US Small	5.8%	3.0%
Global ex-US	2.3%	1.2%
Int'l Dev	1.8%	1.4%
Emerging	4.2%	0.5%



## FIXED INCOME STAGNATED

Fixed income markets fell in February as the market priced in expectations for Fed rate cuts pushing the Bloomberg Agg Index down **1.3%** in the period.

	MONTH*	YTD*
Ultra-Short	0.5%	1.0%
Short	-0.4%	0.0%
Core	-1.4%	-1.7%
Long	-2.2%	-4.4%
High Yield	0.3%	0.3%
US TIPS	-1.1%	-0.7%
Intl Bonds	-1.3%	-2.6%
EM Bonds	0.1%	-0.6%



## ALTERNATIVES WERE MIXED

Private credit continued to produce stable, high yield income for the portfolio while gold and real assets (like infrastructure) were down slightly in the period.

	MONTH*	YTD*
Gold	-0.2%	-0.9%
Merger Arbitrage	0.5%	-0.2%
Infrastructure	-0.4%	-0.5%
Direct Lending	1.9%	0.9%
Hedge Funds	2.5%	2.8%
Managed Futures	2.0%	0.4%

Due to reporting lags, some data represents the latest return as of the month prior to this period.

\*Sources: Each asset class is represented by a corresponding index or fund as of each report's month-end date. The associated indexes can be found below. This has been provided for informational purposes only, and reflects the current opinion of the author, which is subject to change without notice, as are statements of financial trends, which are based on current conditions.



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Reference Above	Benchmark Index	Reference Above	Benchmark Index
US Large	S&P 500 Index	Hedge Funds	Eurekahedge Hedge Fund NR Index
US Mid	S&P 400 Index	Managed Futures	Credit Suisse Mgd Futures Liquid TR
US Small	S&P 600 Index	Ultra-Short	Bloomberg US Treasury Flt Rate Index
Global ex-USA	MSCI World ex-USA All Cap NR Index	Short	ICE US Treasury 1-3Y Bond Index
Intl Dev	MSCI EAFE NR USD Index	Core	Bloomberg Aggregate Bond Index
Emerging	MSCI EM NR US Index	Long-Term	ICE US Treasury +20Y Bond Index
Gold	S&P GSCI Gold TR	High Yield	Bloomberg US Corporate HY Index
Merger Arbitrage	IQ Hedge Merger Arb TR USD Index	US TIPS	ICE US Treasury Inflation Linked Index
Infrastr (Infrastructure)	MSCI ACWI Infrastructure NR Index	Intl Bonds	Bloomberg Global Agg ex-USD Index
Direct Lending	Cliffwater Corporate Lending I	EM Bonds	Morningstar EM BD GR Index