Perception versus Reality

LOCORR FUNDS

Suppose Lebron James went into a game and missed his first ten shots. Despite being one of the best players of all time, fans may think he is on a "cold streak" and doomed for the rest of the game. Why is that?

The reason is "recency bias" – a condition causing us to believe that what has **happened most recently** is what **will continue to happen** in the future.

In the world of investing, recency bias makes investors focus on the short-term results, losing sight of the long-term impact of their investments.

Consider these portfolios:

A	
Average Annual Return	18.47%
Standard Deviation	15.39%
Max Drawdown	-19.60%
Sharpe Ratio	1.11%

B	
Average Annual Return	9.52%
Standard Deviation	14.65%
Max Drawdown	-50.95%
Sharpe Ratio	0.61%

In our experience, we feel many clients believe that their portfolio most closely resembles **Portfolio A** – the S&P 500 Index over the past 5 years (as of 12/31/21). We believe most client portfolios more closely resemble **Portfolio B** – the S&P 500 Index over the past 20 years (as of 12/31/21).

The stock market has performed well over the last several years.

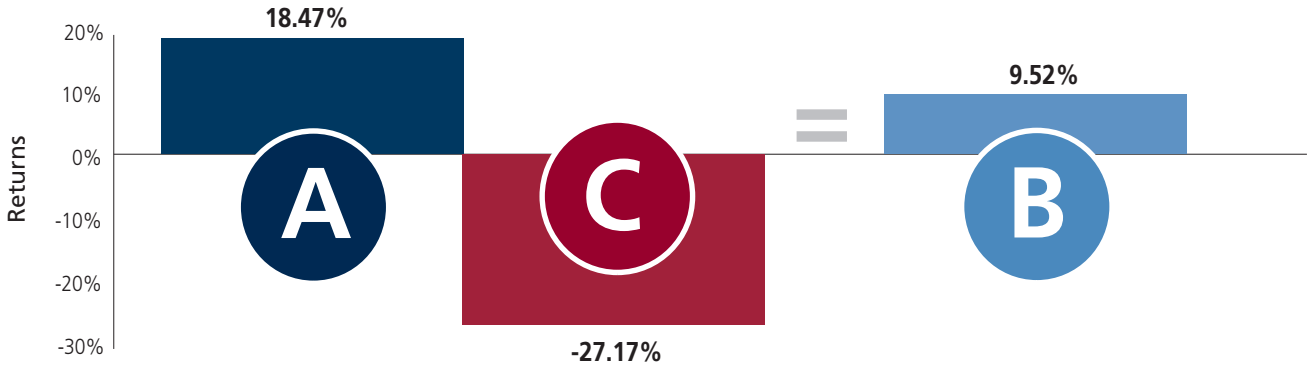
"Recency bias" makes clients tend to believe that extraordinarily good performance will last forever…when **"reversion to the mean"** (underperforming recent returns) is actually more likely in the future.

Source: Morningstar Direct. Portfolios A and B represent the historical track record and characteristics of the S&P 500 Total Return Index. Index performance is not illustrative of fund performance. Average annual return, standard deviation, max drawdown, and sharpe ratio are calculated using monthly returns. One cannot invest directly in an index. Please call 1.855.LCFUNDS (1.855.523.8637) for fund performance. **Past performance does not guarantee future results.**

S&P 500 Total Return Index is a capitalization weighted unmanaged benchmark index that includes the stocks of 500 large capitalization companies in major industries. This total return index includes net dividends and is calculated by adding an indexed dividend return to the index price change for a given period.

Markets are cyclical, and over time, equities may return to their long-term historical returns and risks. With an average bear market historically 10 months long, **what type of returns would it take for markets to revert back to the mean?**

In order for the 5-year average returns (18.47% in Portfolio A) to revert back to the 20-year average returns (9.52% in Portfolio B), it would take a 10-month bear market of -27.17% (Portfolio C) to drive Portfolio A's returns back to the longer term returns of Portfolio B. **Are you prepared if markets revert to their long-term mean?**



Source: LoCorr Fund Management, Morningstar Direct

Help make sure your clients are ready for reality to set in by considering balancing their portfolios with LoCorr Funds. By generating returns independent of stocks and bonds, low-correlating strategies can help reduce risk, improve diversification and increase returns in portfolios. Low correlating investments have historically done well when the equity markets have struggled.

Why LoCorr?

LoCorr Funds offers alternative investments designed to be significantly non-correlated to traditional investments, such as stocks and bonds. With the continued uncertainty in the marketplace, the time is now to consider adding low correlating investment strategies to any portfolio holding a majority of traditional asset classes. Our investment solutions are designed for investment professionals and individual investors who are seeking to achieve better diversification and the potential for reduced risk within their portfolios.

For more information, call our sales desk at **888.628.2887**

The Fund's investment objectives, risks, charges, and expenses must be considered carefully before investing. The prospectus contains this and other important information about the investment company, and it may be obtained by calling 1.855.LCFUNDS, or visiting www.LoCorrFunds.com. Read it carefully before investing.

Mutual fund investing involves risk. Principal loss is possible. The Fund is non-diversified, meaning it may concentrate its assets in fewer individual holdings than a diversified fund. Therefore, the Fund is more exposed to individual stock volatility than a diversified fund. The Fund invests in foreign investments and foreign currencies which involve greater volatility and political, economic and currency risks and differences in accounting methods. The Fund may make short sales of securities, which involves the risk that losses may exceed the original amount invested. Investing in commodities may subject the Fund to greater risks and volatility as commodity prices may be influenced by a variety of factors including unfavorable weather, environmental factors, and changes in government regulations. The Fund may invest in derivative securities, which derive their performance from the performance of an underlying asset, index, interest rate or currency exchange rate. Derivatives can be volatile and involve various types and degrees of risks, and, depending upon the characteristics of a particular derivative, suddenly can become illiquid. Investments in debt securities typically decrease in value when interest rates rise. This risk is usually greater for longer term debt securities. Investments in Asset-Backed, Mortgage-Backed, and Collateralized Mortgage-Backed Securities include additional risks that investors should be aware of such as credit risk, prepayment risk, possible illiquidity and default, as well as increased susceptibility to adverse economic developments. Stocks, real estate, and bonds are not guaranteed. Bonds traditionally experience less volatility than stocks. Small-cap and mid-cap stocks involve additional risks such as limited liquidity and greater volatility than large-cap stocks. Real Estate investments concentrate their investments in the real estate industry and may involve greater risk and experience more volatility than other portfolios.

Diversification does not assure a profit nor protect against loss in a declining market. Correlation measures how much the returns of two investments move together over time. Sharpe Ratio measures the amount by which a set of values differs from the arithmetical mean, equal to the square root of the mean of the differences' squares. Standard Deviation is the statistical measurement of dispersion about an average, which depicts how widely a portfolio's returns varied over a certain period of time. When a portfolio has a high standard deviation, the predicted range of performance is wide, implying greater volatility. Max drawdown is an indicator of the risk of a portfolio chosen based on a certain strategy. It measures the largest single drop from peak to bottom in the value of a portfolio (before a new peak is achieved).

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