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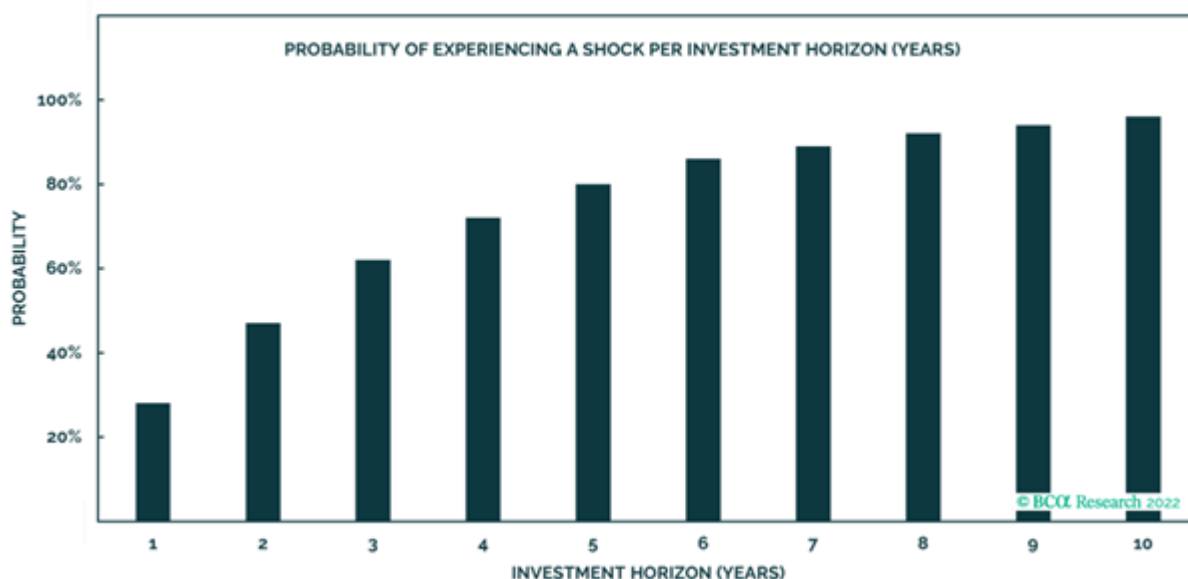
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## CRISIS EVENTS

It was only a few weeks ago that the main crisis event the markets were contemplating was Covid. Now, that crisis has been displaced by the Russian invasion of Ukraine. These events are statistical outliers individually, also called black swans because they are rare events. Crisis events or black swans happen much more frequently than investors often realize. The specifics of any individual crisis event or black swan is by its nature unpredictable. However the frequency of these events is actually quite predictable.

The frequency of crisis events or black swans can be quantified and is the mathematical foundation for the entire insurance industry. Many economists prepare short-term and long-term economic forecasts, but rarely include crisis events. Yet, the mathematical probabilities of a black swan event suggest it's a relatively high probability. For example, using a statistical distribution, the likelihood of experiencing a crisis event in any ten-year period is 95%, basically a certainty. In any five-year period it is an extremely high 80% and in any two-year period, it is 50%. [See chart below].

The statistics are pretty clear that investors should set proper expectations and consider that black swan events will undoubtedly occur. As opposed to ignoring the existence of black swan events, we contemplate them in our portfolio construction and stress test portfolios for unpredictable events. The process of stress testing helps quantify the portfolio risk during black swan events and ensure that each portfolio is calibrated consistent with an investor's risk profile.



Source: BCA Research\*

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