THE PRIVATE CLIENT GROUP
WEALTH MANAGEMENT

BEHAVIORAL & FINANCIAL INSIGHTS

A Test in Staying the Course

In Summary:

- Recent volatility has been a painful reminder of what happens to investment assets during challenging times for the economy.
- While it might feel unprecedented – especially after an 11-year long bull market – this type of volatility is expected from time to time.
- It's important during these periods to not panic and to maintain a long-term perspective. Times like these are why we recommend diversified portfolios aligned with investor specific risk tolerances.
- With uncertainty likely to remain high in the coming weeks, the best course of action is almost always to stay the course, assuming all near- and medium-term liquidity needs are met.

With equity indices now crossing into bear market territory, it's easy to get anxious seeing the markets rise and fall several percent each day. Although the situation we face today is unique (coronavirus containment, oil price war, etc.), this type of market environment isn't. We can take comfort in knowing that we've been here before and that these bumpy periods eventually pass. For well-prepared, long-term investors, now is a time to stay the course while evaluating potential opportunities as assets become oversold. Below we offer a series of charts detailing historical parallels and supporting the case for well-constructed diversified portfolios.

Especially with the onslaught of fear-invoking headlines, it's important to keep things in perspective. The table below details the last several bear (or close to it) market drawdowns dating back to 1987. While you often hear about the magnitude of the drawdowns (red numbers), what's less discussed is the next 12-months, or the green numbers (see below). Many of the best all-time trading days come within a month of the worst trading days and missing out from these best days can have a material impact on long-term performance.

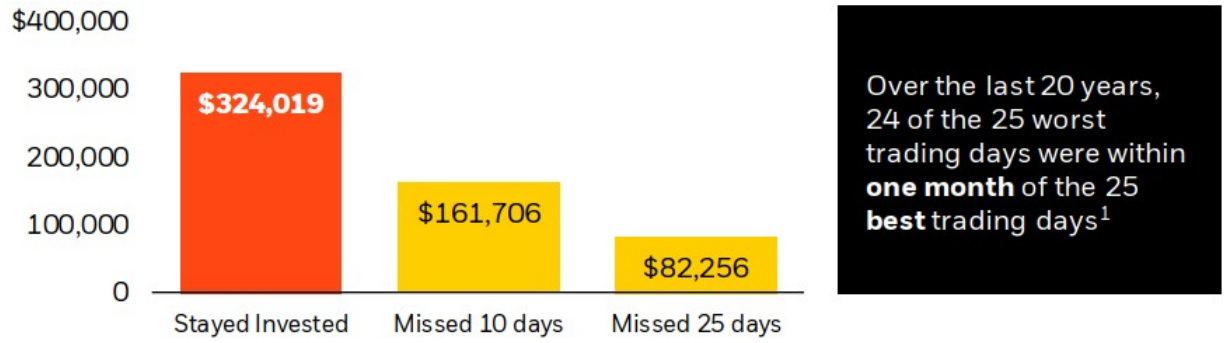
S&P 500 Biggest Declines and Following 12-Month Performance

Dates of S&P's biggest declines	Black Monday 8/25/87-12/4/87	Gulf War 7/16/90-10/11/90	Asia Monetary Crisis 7/17/98-8/31/98	Tech Bubble 3/27/00-10/9/02	Financial Crisis 10/9/07-3/9/09	US Credit Downgrade 3/10/11-10/3/11	Trade War 10/3/18-12/24/18
U.S. stocks	-33.5%	-19.9%	-19.3%	-49.0%	-56.8%	-19.0%	-19.6%
Next 12 months	+21.4%	+29.1%	+37.9%	+33.7%	+68.6%	+32.0%	+37.1%

Source: Morningstar as of 2/28/20. Returns are principal only not including dividends. U.S. stocks represented by the S&P 500 Index. Past performance does not guarantee or indicate future results. Index performance is for illustrative purposes only. You can't invest directly in an index..

It's always tempting to try to time the market, but that requires two important timing decisions: when to sell and when to buy. A minor miscalculation of either move can have a significant impact on results. As seen below, missing out on just the market's top ten performing days over the past 20 years would cut the gains on a $100,000 investment by about half.

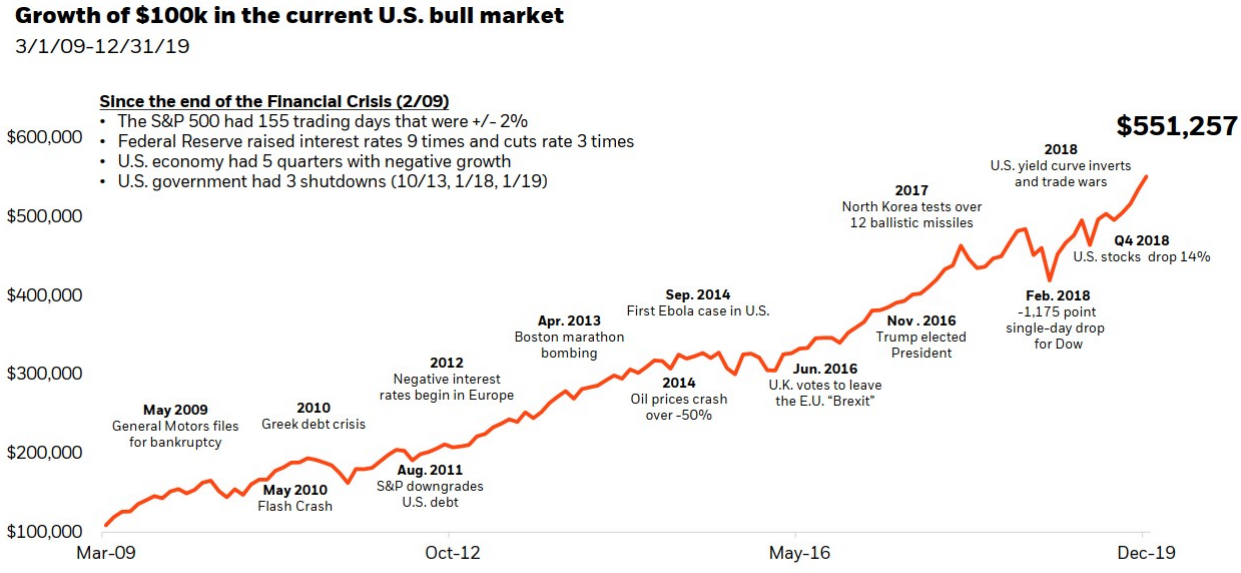
Impact on a $100,000 Portfolio of Missing the Market's Best Days



Sources: BlackRock; Bloomberg, Morningstar as of 2/28/20. U.S. stocks are represented by the S&P 500 Index, an unmanaged index that is generally considered representative of the U.S. stock market. Index performance is for illustrative purposes only. It is not possible to invest directly in an index. [1]Only period without a corresponding best day within one month was September 17, 2001. Past performance does not guarantee or indicate future results.

Looking back over the past decade, or century for that matter, there have been plenty of excuses to sell stocks. Just over the past bull market, we've had the Greek Debt Crisis, the introduction of negative interest rates, an Ebola outbreak, Brexit, and a global trade war – just to name a few. Amongst all of this, stock markets have still managed to produce impressive gains.

Growth of $100,000 over the Last Bull Market



Source: Morningstar as of 12/31/19. U.S. Stocks represented by the S&P 500 Index. **Past performance does not guarantee or indicate future results.** Index performance is for illustrative purposes only. You can not invest directly in the index.

Many will offer opinions, but our view is that it's nearly impossible to predict how this crisis will unfold. What's perhaps more likely, is that volatility will remain elevated in the coming weeks and potentially months. Given this framework, our belief in diversified portfolios remain strong. While this

approach can often result in short-term remorse ("I lost money during down periods", "I didn't make as much during up periods"), the long-term result is winning by not losing! In fact, the below 60/40 stock/bond mix has outperformed an equity portfolio since 2000 through the end of 2019 with less risk.

The Case for Diversification: S&P 500 Index vs. Diversified 60/40 Stock/Bond Portfolio

Years	S&P 500 Index	Diversified portfolio	
2000*-2002	-40.1%	-18.6%	"I lost money"
2003-2007	+82.9%	+73.8%	"I didn't make as much"
2008	-37.0%	-24.0%	"I lost money"
2009-2019	+351.0%	+191.7%	"I didn't make as much"
Total Return	**+211.4%**	**+213.5%**	"Diversification can work even when it feels like it's losing"
Growth of $100,000	**$311,420**	**$313,510**	

Source: Morningstar as of 12/31/19. *Performance is from 8/1/2000 to 12/31/2000 to more accurately reflect the time period encompassing the previous two bull and bear markets. Past performance does not guarantee or indicate future results. Diversified Portfolio is represented by 40% S&P 500 Index, 15% MSCI EAFE Index, 5% Russell 2000 Index, 30% Bloomberg Barclays U.S. Aggregate Bond Index, and 10% Bloomberg Barclays US Corporate High Yield Index. Index performance is for illustrative purposes only. You can not invest directly in the index. Diversification does not guarantee a profit or protect against a loss in a declining market.

Conclusion: Living through these periods of market uncertainty is rarely a fun exercise but will occur occasionally. It's important to remain calm and stay focused on the long-term. While it can feel like you're always losing, staying the course and maintaining a diversified portfolio is often the best approach.