

Keeping Your Eye on the Prize

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Staying with Principles that Work

Roughly one month ago, the S&P 500 Index reached an all-time high. Today, the market is deep in bear market territory, with the S&P 500 down more than 33% from its high. By the end of today, the market could be up or down another 5%, given the extreme volatility experienced over the past couple of weeks. To say the least, this market behavior is more than disconcerting, it is downright scary and can profoundly influence our emotions. So, we want to remind you of some key principles about how markets work and how we manage money on your behalf to keep you on track to attaining your goals.

1. **Attempting to play short-term market moves can be self-destructive.** There is a vast body of research that substantiates this very point. The financial media may tempt you to do otherwise, but the market timing road typically leads to higher costs, missed opportunities, and in many cases, greater losses. This behavior will typically create a drag on the performance you would have otherwise achieved over the long run had you stayed the course set out by your investment strategy and financial plan.
2. **You have to take risk to achieve your goals.** Markets compensate investors for taking risk, not sitting on cash. Stocks are riskier than bonds, which are riskier than cash. Accordingly, the long-term returns for stocks are higher than bonds, which in turn, have returns higher than cash. In the short-run, returns are not driven by the long-term return generating process of the economy and markets. Short-run returns are driven by shocks to the system and market participants' perceptions of and attitudes toward risk. If you are tempted to bet on predictions of changing perceptions, refer to #1 above.
3. **How you take risk matters.** Wealthcare offers a range of investment approaches for this reason. Using an investment strategy that matches your beliefs and gives you confidence that you will be successful in the long run is essential to staying the course during volatile times. We believe in goal-connected, risk-managed, cost-effective investment approaches. All our strategies, from our low-cost Pure Gamma strategies to our cost-effective alpha strategies, are designed to enable you to target a risk objective and effectively connect it to your goals-based plan. Left to you and your advisor is selecting a strategy that best matches your needs and preferences. From there, we implement on your behalf on a tax-managed basis. It's not just what you earn from taking risk that matters, it is also what you keep. Our household-based tax management process is designed to help you maximize what you keep.
4. **How you use risk matters.** Yes, you have to take risk to achieve your goals, and how you take risk in the markets matter. However, it is how you use risk to achieve your goals that is most central to how we serve you. This is captured in our patented Comfort Zone®, which reflects the essence of goal-connected investing. Rather than reacting emotionally to a market sell-off, a goals-based approach allows us to take a look at how market movement may be affecting your goals and facilitates intelligent adjustments to keep you and your life-financial plan in the Comfort Zone.

Now, a few comments on recent market behavior.

The Novel Corona Virus Impact

There are still more unknowns than knowns with regard to the COVID-19 disease. What is clear as day is that it is spreading fast, and our leadership has been behind the curve, although there are signs that they are catching up. The Fed stepped in big time *again* today with another wave of initiatives aimed at calming markets. The initiatives include an open-ended commitment to buy bonds to support a smooth functioning market and setting up programs to ensure credit flows to companies and state and local governments. They are going beyond what they did to support the economy in 2008/2009 financial crisis. The market rallied on the news, only to fall again on the

failure of the Senate to pass a relief package. Yes, the bickering in Washington is mind-boggling, but they will get it done soon, and it is expected to be about \$2 trillion. That is a lot, and if it turns out not to be enough, we fully expect there will be more to come.

In the meanwhile, the speed of the rise in the number of cases, and the rolling shutdown of industries and communities, leaves the markets (people) to fear the worst. If the market has visibility into a problem and potential solution, it can quantify it, price it and stabilize accordingly. We are not there yet, but we are getting closer. Getting there requires demonstrable improvement in risk management from a healthcare perspective and an economic perspective.

From an economic perspective, the Federal Reserve is doing its part. However, Congress and the President have been lagging. We think this is about change, and the success of efforts by Congress to pass a \$2 trillion relief package will be a signal. We need the \$2 trillion relief package to offset “sudden stop” of the economy driven by shutdowns and social distancing.

From a healthcare perspective, we need the economic sudden stop to slow the spread of the virus to keep new cases below the capacity of our healthcare system – hospital beds, ventilators, etc. or people die not because they caught the disease, but because we didn’t have capacity to treat them. We need it to buy some time to expand capacity, develop treatments, etc.

We also need to test, test, test. To quote Mohammed Ali, “Float like a butterfly, sting like a bee, the hands can’t hit what the eyes can’t see.” The only way we can fight the virus is to see it. The only way to see the virus is to test for it. Due to the engagement of the private sector, we think testing is ramping up. For example, New York City began drive-through testing for New Rochelle about a week ago. Now it is rolling it out to the greater New York City area. Friday, the FDA authorized the use of the first rapid diagnostic test that can detect the virus in about 45 minutes, a vast improvement from the one to four-day turnaround time hospitals and clinics have been experiencing. The new test is supposed to ship to hospitals this week according to Cepheid, the company manufacturing the test. At home tests are also on the horizon. Keep in mind that as testing ramps up, we will see a sharp rise in “new cases.” However, all new cases are not new transmissions, but ones heretofore we did not have the capacity to test. So, the results of increased testing may scare us as the number of cases spike, but the information is essential to managing the risks.

Large market moves, both down and up, will continue to be with us for a while, along with alarming headlines and forecasts. We are also going to get a series of bad economic numbers for the next several months. So, brace yourself for this, while recognizing the market is forward-looking and has already discounted significant negative expectations for the short-run. In the longer run, maintaining and adding to equities after large declines has been a superior strategy than reducing equities until it feels better. The market has always come back, and it will this time too. How much you own should be driven by the horizon of your plan, your goals, and your tolerance for risk. One of the best ways to address the question of how much you should own is to review your Comfort Zone with your advisor. Keep your eye on the prize: a life well-lived.

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