Overcoming Panic in Volatile Markets

On AdvisorIntelligence, we share the major communications we send to our own private wealth management clients. Subscribing advisors are free to brand and redistribute them in their own practices (with the proper disclosure). Over the last year we've addressed such topics as market volatility, inverted yield curves, negative rates, portfolio positioning, and more. Having a resource for timely messages, not to mention portfolio guidance and general investment research, can leave you more time to focus on your clients. Here is one of our latest pieces on the recent market volatility:

Dear «Informal Salutation»,

As we all know from news headlines, global stock markets have now entered a bear market, having declined more than 20% from recent highs. As of Thursday, March 12, U.S. stocks had declined over 26% from their high point on February 19. And markets have remained extremely volatile since then. We are reminded of a famous quote from value investor Warren Buffett: "Be greedy when others are fearful." Historically, this has been a very good investment mantra to have.

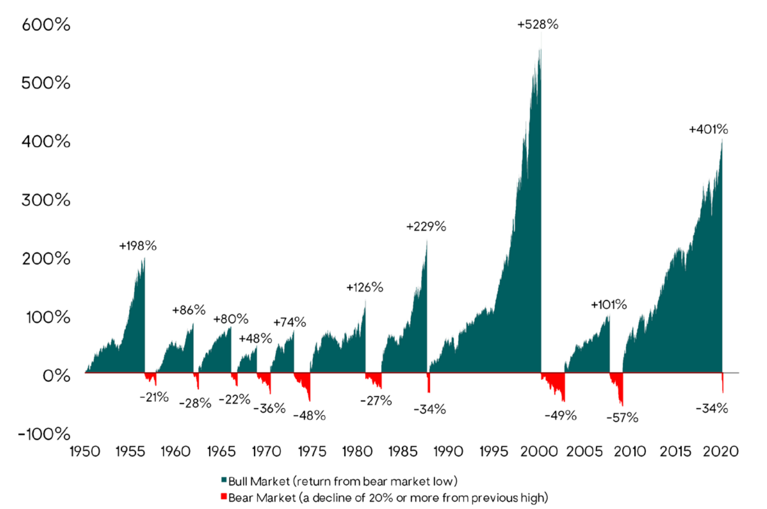
[Your Firm Name] has been through several crises and stock market declines. From experience, we know the best time to stick to your investment discipline and buy is usually when you feel fearful but your analysis suggests the likelihood of a strongly favorable medium- to longer-term outcome is very good, as we believe is true today.

A 25% or greater drawdown in U.S. stocks is quite infrequent. It's happened only eight times in the past 70 years. But such painful periods do happen. Investors in equities need to be emotionally and financially prepared for them. And the longer-term returns are worth the short-term discomfort. It may seem like the market could just keep dropping with no bottom in sight. But that is exactly where research, analysis, patience, experience, and having a disciplined investment process come most into play.

Throughout history, the world has faced numerous severe challenges and economic downturns and has always come out the other side. While not minimizing the unique risks and unknowns from the current crisis, we will bet on that being the case again. There is a good chance the recovery may start happening before the end of the year.

Given that the main catalyst for this downturn is the coronavirus (alongside an unexpected oil price war) and that there is an end game for the virus at some point, it seems reasonable that markets will rally when virus news turns incrementally positive (the spread slows, new cases stabilize or

Bull and Bear Markets: Putting Even Extreme Declines into Perspective



© Copyright 2020. Litman Gregory Analytics, LLC. Source: Morningstar Direct. As of 3/23/20.

drop, treatments or vaccines are developed, etc.). But even if this bear market lasts longer than the historical average of 18 months, potential forward-looking U.S. stock returns have already improved. And they will get even better the lower stocks go.

So while it may be hard to imagine now, there will be an end point to this crisis from a medical perspective and thus from an economic and financial markets perspective. Of that, we think we can be confident. The key to overcoming panic in financial markets is to focus on the future. Remember, severe losses only become permanent losses if you sell, go to cash, and lock them in. Volatility is uncomfortable when you're living through it, but it sows the seed of the future's strong returns.

With all this said, we recognize it is natural to be concerned when volatile markets impact your portfolio holdings. For that reason, we encourage you to connect with your Wealth Advisor to discuss any questions you have about your situation and portfolio. We are here for you and appreciate the trust you place in us to be your guide through the everchanging financial market environment.

Best regards,

«Your_Name»«Credential_Suffix»

Interested in learning more about AdvisorIntelligence?

925 254-8999

research@advisorintelligence.com

www.advisorintelligence.com