Insights on Market Volatility

March 2020

"What's been happening in the financial markets?"

- U.S. and International stock markets have seen increased volatility for several weeks, largely fueled by the recent COVID-19 pandemic and shocks to oil markets.
- The global outbreak seems to be causing investors to feel stressed and pessimistic about the future of economic growth, productivity, and earnings potential. The S&P 500 Index has dropped 20%+ from the high, officially ending the 11-year bull market and shifting the U.S. in a bear market.

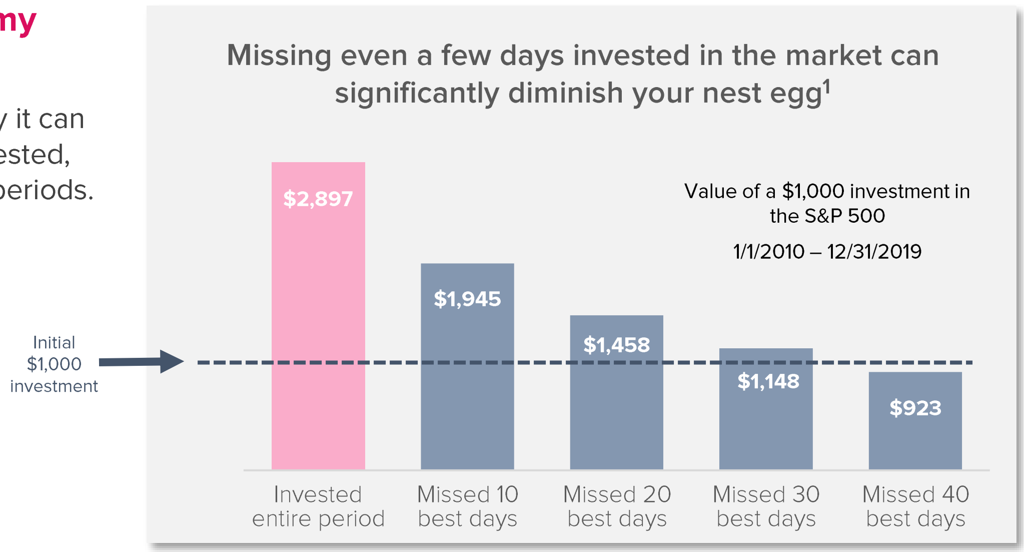
"What should I do with my 401(k) plan?"

Here's a general rule of thumb from NBC senior business correspondent, Stephanie Ruhle: "Treat your 401(k) as you should treat your face during a global virus outbreak...**don't touch it!**"

"Should I move my 401(k) to cash?"

History shows us why it can beneficial to stay invested, even during volatile periods.

By moving to cash, you risk staying on the sidelines for too long and missing out on potential rebounds that may follow.



"What if I'm less than five years from retirement?"

- It's important to revisit your investment strategy and to ensure that you're invested appropriately for your target retirement date. Meaning, you have the appropriate risk/reward ratio for someone who will be retiring soon.
- Consider whether you will need to make withdrawals in the short-term. If yes, you could consider adding a **"cash buffer"**, which can serve as an "emergency fund" for your portfolio if you happen to retire during a market downturn. A cash buffer can help support your expenses in the short-term while allowing you to keep the rest of your portfolio invested to recover and remain invested through your retirement.

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Benefits with your 401(k)

- If you **keep contributing** every pay-period, your contributions allow you to **dollar-cost-average**, a strategy that could benefit you in the long-term. Your money is invested in equal portions, at regular intervals, regardless of the ups and downs of the market. You buy more shares of an investment when the share price is low and fewer shares when the share price is high. This can result in paying a lower average price per share over time. Removing emotion from your investing should benefit you over time. Trying to "time" the market often backfires.
- **Your Target-Date mutual fund is doing its job!** Many 401(k) investors are invested in their age-based target-date fund, which helps during volatile periods since the fund aims to align with your *long-term* retirement goals with a risk profile that matches your age. Over time, it will automatically become more conservative as you approach retirement.

  If your target-date year does not accurately reflect your retirement goals, consider switching to a more appropriate target retirement year.

It's not all bad

- A down market is a lot like when your favorite store puts everything on clearance. You're able to buy your favorite things at a cheaper price. During a market recovery, you will own more shares in a rising market.
- **"Buy low, sell high" –** It sounds cliché, but it's true!

From 1929 through 2019, every S&P 500 decline of 15% or more has been followed by an average return of **+54%** in the year after the decline.[2]

"This volatility is stressful for me. Is there something I can do?"

- Feeling stressed due to market volatility is normal, but this volatility may feel stronger than usual since it's compounding with fears of COVID-19. As hard as it is, try to take emotion out of your investing.
- If you're losing sleep **due to fears of the market**, it may be time to adjust your investment strategy to something that is more appropriate for your risk tolerance.

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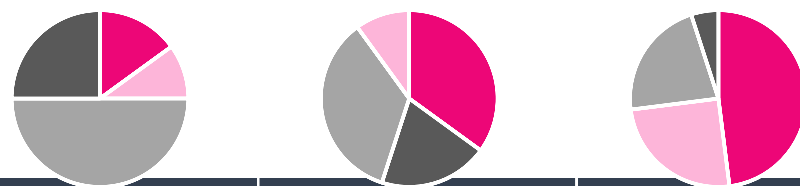
When building an investment portfolio it's important to consider **your risk tolerance** and **your time horizon**. An individual with a longer time horizon, e.g. retiring in the year 2060, can afford to take on more risk in their investment portfolio –to ride out the highs and lows of the market—than someone who is in or is nearing retirement.

Below are three examples of model portfolios with varying risk profiles; **conservative**, **moderate**, and **aggressive**. The chart below includes historical performance for the three portfolios. [3]



	Conservative	Moderate	Aggressive
Average Annual Return	6.0%	8.0%	9.0%
Worst 12-Month Return	-17.5%	-40.4%	-52.6%
Best 12-Month Return	31.1%	76.6%	109.6%
Worst 20-Year Return	2.9%	3.5%	3.1%
Best 20-Year Return	11.0%	13.8%	15.3%

Sources:

[1, 2] RIMES, Standard & Poor's. As of 12/31/19. Values in USD.
[3] Morningstar, Inc., 2019 (1929-2018)

Past performance is no guarantee of future results. Investing involves market risk and it is possible to lose money by investing. Investment return and value will fluctuate in response to issuer, political, market and economic developments, which can affect a single issuer, issuers within an industry, economic sector or geographic region, or the market as a whole. For securities products, details and information regarding investment objectives, risk, charges and expenses and a description of the types of securities in which each product may invest can be found in the appropriate Prospectus for the product and should be reviewed carefully.
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