Late-Cycle Investing

Strategic Advisers LLC

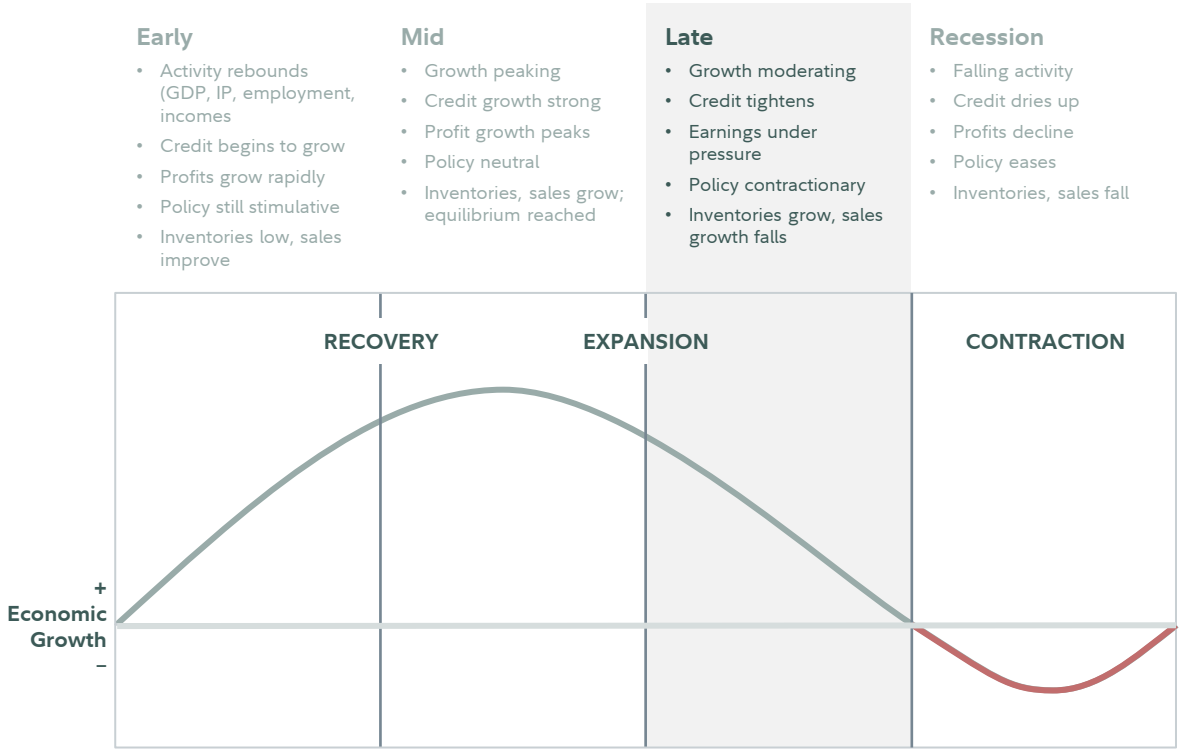
Fidelity INVESTMENTS

Late Cycle is a Period of Continued Growth, but at a Slower Pace

We typically see signs of a maturing economy, but stocks and bonds generally rise.

- In late cycle, signs of a tight labor market can lead to higher wages. This is good for consumers, but a cost for businesses.
- At the same time, inflation and interest rates can gradually move higher, and consumers may feel these impacts on mortgages and car loans. Inflation may also lead to higher prices for consumer goods.
- Additionally, stock markets may experience more volatility due to uncertainty about U.S. corporate profits and economic growth.
- It's important to know that late cycle is not a recession, but rather a period of moderating growth. A recession is when the economy actually shrinks.

The late phase of the business cycle



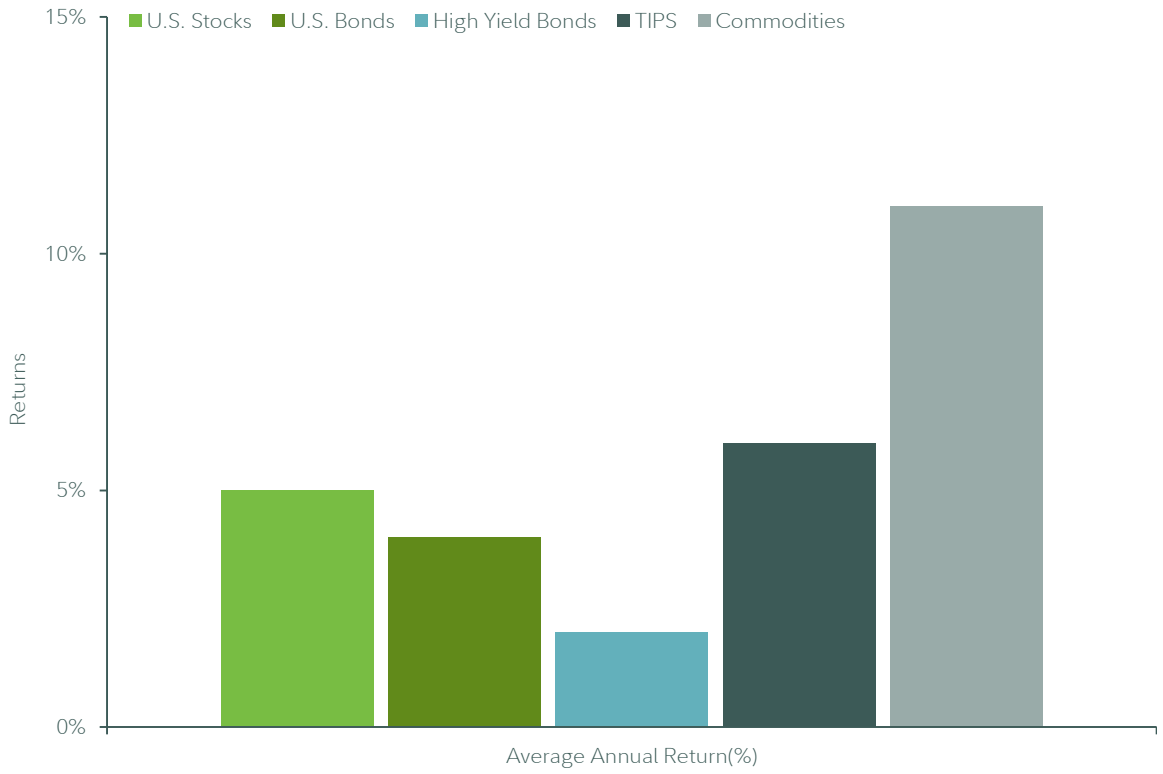
For illustrative purposes only. Business cycle above is a hypothetical illustration of a typical business cycle. There is not always a chronological progression in this order, and there have been cycles when the economy has skipped a phase or retraced an earlier one. **Past performance is no guarantee of future results.** Asset class total returns are represented by indexes from the following sources: Fidelity Investments, Morningstar, and Bloomberg Barclays. Fidelity Investments source: a proprietary analysis of historical asset class performance, which is not indicative of future performance.

Historically, Returns Have Been Positive During Late-Cycle Expansion

Our deep research on the business cycle and market history helps inform investment decisions.

- Typically, stocks and bonds have provided positive, yet modest returns during late cycle.
- Stocks have usually performed better than bonds, but less consistently so.
- Meanwhile, commodities and inflation-protected bonds (TIPS) tend to gain in value during these periods.
- We use our extensive and proprietary research to deeply understand where the U.S. economy resides in the business cycle.
- This helps guide the investment decisions we make in your account on your behalf, helping you to stick with your investment plan over the long term.

Late cycle average annual returns, 1950–2016 (average phase length 1.5 years)



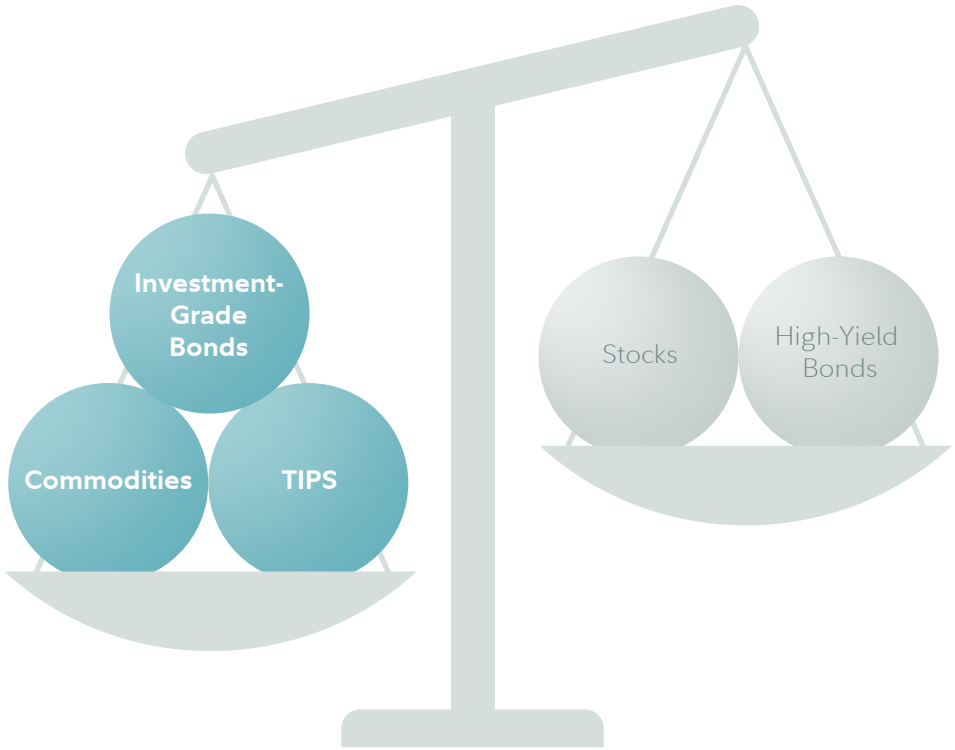
TIPS: Treasury Inflation-Protected Securities. **Past performance is no guarantee of future results.** Asset class total returns are represented by indexes from the following sources: Fidelity Investments, Morningstar, and Bloomberg Barclays. Fidelity Investments source: a proprietary analysis of historical asset class performance, which is not indicative of future performance.

As the U.S. Economy Matures, We Will Modify the Mix of Investments in Your Account

During late cycle, typically we will seek to gradually reduce risk in your account.

- Therefore, we may gradually decrease the amount of stocks and high yield bonds, as they tend to experience more frequent periods of volatility.
- We may also increase the amount of investment-grade bonds, as they tend to provide stability during late-cycle expansions.
- Additionally, we may increase exposure to commodities and TIPS, as they could provide protection against inflation as the economy matures.
- We also continuously monitor and look for opportunities to rebalance your account, as needed, to maintain the appropriate level of risk for your investments.
- We believe that the adjustments we make to your account on your behalf will help keep you aligned to your long term financial goals.

In late-cycle, we may modify the investments in your account



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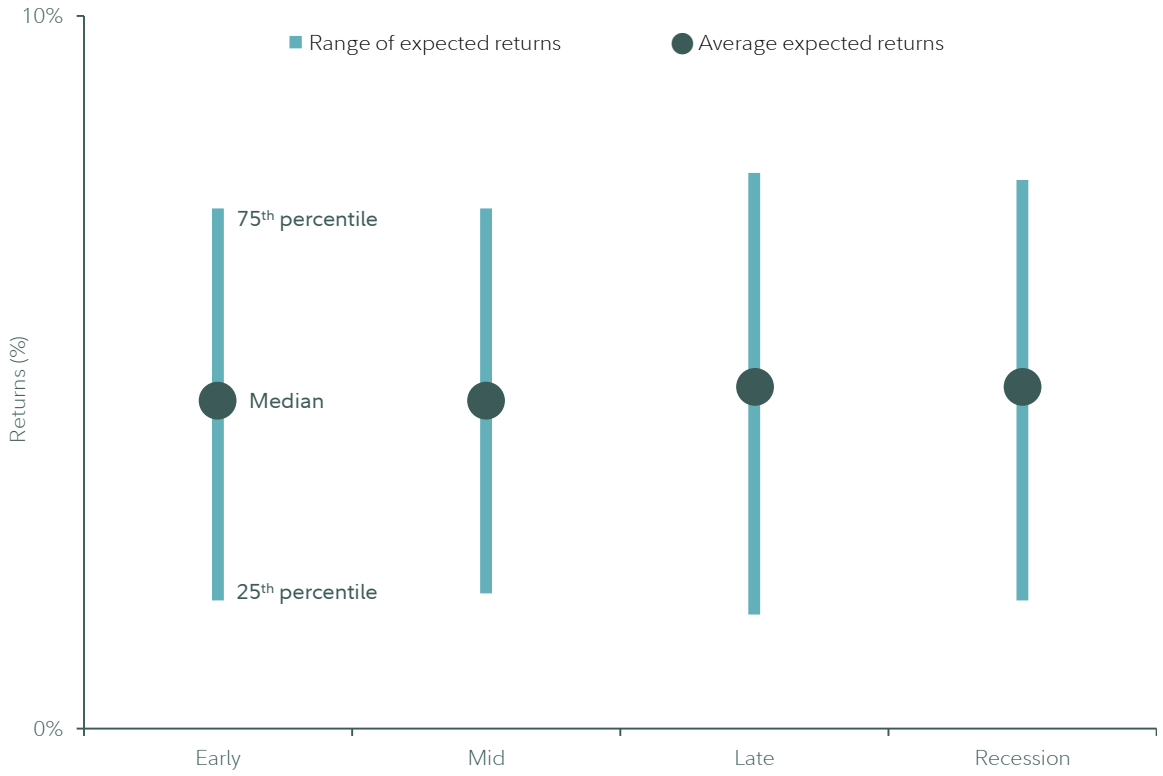
No Matter When You Start Investing, Outcomes Can Be Similar over Time

Our research shows that when you fund your account matters less with time.

- The difference in average long-term performance can be very small over time, regardless of which phase of the business cycle you start investing in.
- Therefore, choosing when to enter the market based on where we believe the U.S. economy resides in the business cycle is unlikely to dramatically affect your returns.
- Instead, we believe that remaining disciplined and sticking to your long-term investment plan may be a more reliable way to achieve your long-term financial goal.

10-year expected portfolio returns starting in each cycle



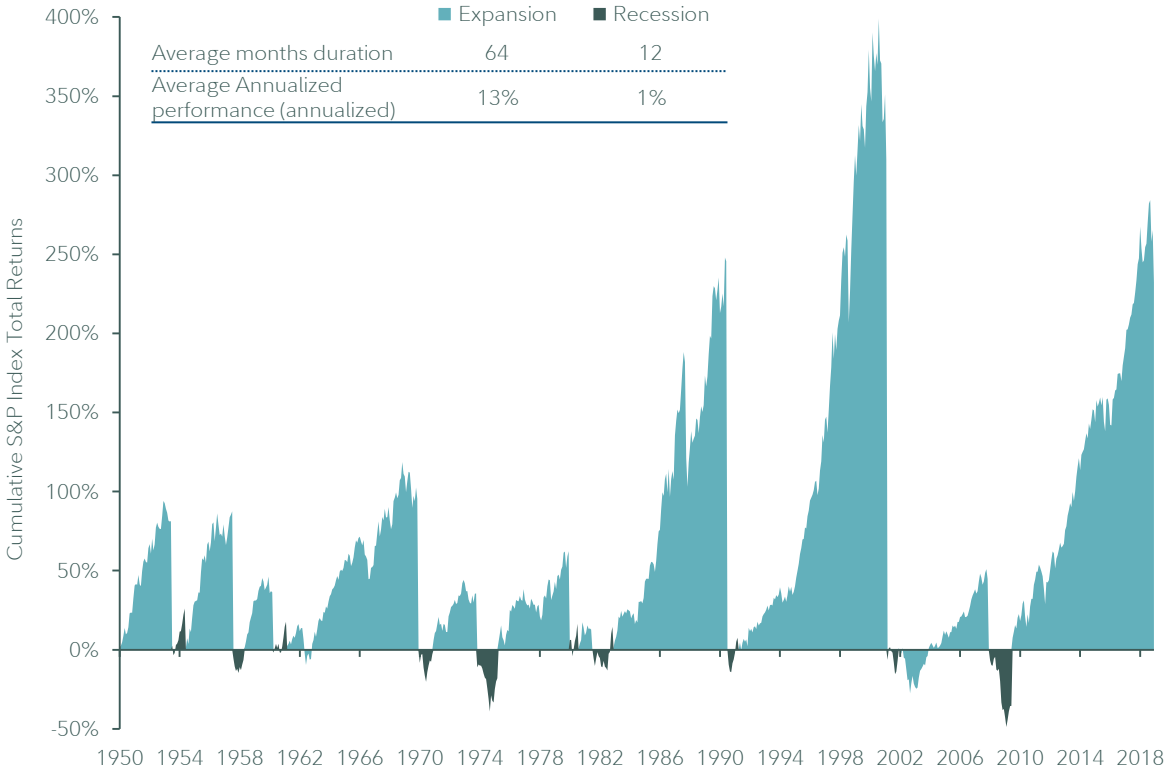
For illustrative purposes only. Past performance is no guarantee of future results. It is not possible to invest directly in an index. All indexes are unmanaged. Sample Portfolio: 42% Domestic Equity, 18% Foreign Equity, 35% IG Bonds, 5% Cash. See Important Information section for index information. This historical analysis is based on Monte Carlo analysis based on historical index returns. 'Range of expected returns' illustrates simulations between the 25th and 75th percentile. The simulations represent an 85% confidence interval. Actual returns could potentially be higher or lower. Portfolio based on Dow Jones U.S. Total Stock Market Index, MSCI ACWI ex-US Index, Bloomberg Barclays Aggregate Index, as of 12/31/18.

We Believe in the Power of Long-Term Investing, as Stocks Generally Grow More than They Contract

Despite occasional market downturns, focusing on your long-term goal is vital.

- Stocks, which are an important growth engine to potentially achieve future financial goals, have been through many downturns, yet they have shown tremendous growth over the decades.
- As shown on the chart, market returns since 1950 on average have been positive, including dividends. Additionally, over this time span, the market has been in an expansionary period the vast majority of the time.
- We believe that investors who stick with their investment plan tend to be rewarded over the long-term.
- That's why we follow a disciplined investment process in managing your account to help you reach your long term financial goal.

Since 1950, stocks have grown through ten business cycles



This chart illustrates the cumulative percentage return of a hypothetical investment made in the noted index during periods of economic expansions and recessions. Index returns include reinvestment of capital gains and dividends, if any, but do not reflect any fees or expenses. This chart is not intended to imply any future performance of the investment product. **Past performance is no guarantee of future results.** It is not possible to invest directly in an index. All indexes are unmanaged. Please see appendix for important index information. Source: Bloomberg, S&P 500 Index total return for 1/1/50 to 12/31/18; recession and expansion dates defined by the National Bureau of Economic Research (NBER).

Key Takeaways

In late cycle, the U.S. economy generally continues to grow, but at a more modest pace.

As economic conditions change, we will make adjustments to your mix of investments to help keep them on track.

No matter where the U.S. economy resides in the business cycle, we believe that long-term investing is key to financial success.

Talk with a Fidelity Representative.

800-544-3455

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Neither asset allocation nor diversification ensures a profit or protects against loss.

Keep in mind that investing involves risk. The value of your investment will fluctuate over time and you may gain or lose money.

Past performance does not guarantee future results.

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It is not possible to invest directly in an index.

The S&P 500® Index is an unmanaged, market capitalization-weighted index of 500 common stocks chosen for market size, liquidity, and industry group representation to present U.S. equity performance.

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