TRANSCRIPT

Market update: What's behind the volatility

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Brett Wollam: Good afternoon everyone, I'm Brett Wollam, senior vice president with Fidelity's Wealth Management team, and I'd like to welcome you to our event, and thank you for making time to join us today. At Fidelity, we're always here for you. We have a very important job, especially during periods of uncertainty, to help you stay well informed, confident, and on track with respect to your investments and your plan to achieve your goals. As you know, the markets have experienced some volatility recently, and we wanted to take this opportunity to offer our perspectives on what's happening. Today, you'll be hearing from Brian Enyeart, president of Strategic Advisors, Lars Schuster, institutional portfolio manager with Strategic Advisors, and Christin Haley, regional vice president with our wealth planning team. Brian, Lars, and Christin will walk through what's been going on in the markets, and what it means for your investment portfolios. We've received hundreds of questions, which we've used to inform what we'll discuss today. And with that introduction complete, Brian Enyeart, let's get today's session underway.

Brian Enyeart: Thank you Brett, and as Brett mentioned, I'm the president of Strategic Advisors, and some of you may not know the Strategic organization that sits within Fidelity, and I thought I might give you some context on who we are, and what we do. Strategic Advisors is Fidelity's investment advisor, and we manage the investments in your investment portfolios with the managed accounts program. Our team was founded in 1989, so we've been investors through many different cycles. Today, we have an investment organization with about 130 investment professionals looking out for different issues and investment themes that are going to influence portfolios, and that organization is laser focused on trying to understand those things that will impact portfolios and make sure that we've researched them and are putting those ideas to the best we can in your portfolios. Our goal, ultimately, is to help make sure that you can sleep easy at night, knowing that you've got our team helping make investment decisions in your portfolio.

And I think the thing that has happened that's driven us to want to have this outreach with you today is what's going on in the markets most recently. Last week, we saw a tremendous amount of market volatility, but from our perspective, this volatility is really a continuation of market concerns that we've seen investors have over the last year or so. And while this volatility might be unnerving, we are in a market stage that frequently has high levels of volatility. And so, we expect to see these kinds of volatilities, and a part of our message for you today is that you should also be expecting that we are in a more volatile environment. And we'll walk through what's happening in the markets, and how we try and make sense of what we're seeing, and hopefully how you can have some comfort in some of these things that are happening in the market. So you know, with that, let's jump through some of our slides, and I'll turn over to Lars Schuster, one of our portfolio managers, to talk about some of the things that we're seeing in the markets today.

Lars Schuster: Great, thanks Brian. And thank you all for joining us today. We're looking forward to providing you a little context to what we've been seeing over the recent history, and providing a little, a life for you, and maybe some sense of comfort too that perhaps recession is not imminent, which we know is always an immediate concern any time we see any volatility in the market. So let's just look at the backdrop of the market, so what we're showing here on this slide that you see on your screen are three lines, they're highlighting major asset classes that take up a strategic part of most client portfolios. The black line representing bonds, blue line is U.S. stocks, and the green line being international stocks. The first thing I would really want to point out here is from that dotted line, that's the beginning of this year, and you can see some very strong growth for stocks. U.S. stocks up about 18%, non-U.S. stocks up about 9%, and even bonds up a strong 8% or so. Now what you see over a longer period of time, this one-year period, which extends to the left side of this chart, is a little bit more choppiness with respect to stocks. And in particular, the downturn that we all lived through in late 2018, there were several uncertainties related to growth globally, particularly in China. Also the rising trade tensions that we'll talk about a little bit more deeply. But we also had a little bit of a choppiness in May of this year, as well as most recently here in early August. All of these relate to the uncertainties that come with a more mature economic growth pattern that's being amplified by some of the trade tensions that we're looking to talk about in a little bit more detail.

One thing that's not on this chart though is to really refer back to the growth that we've seen in stocks, which are an important driver of growth for your portfolios over the last 3, 5, and 10 years. So, this is just a very short period of time, I just don't want to forget about that longer period of time. Last thing I'll note on this slide though is that one year performance of the black line, bonds. Very strong one-year returns up over 9%, and really bonds have served their purpose as a diversifying element, providing a [balance?] to portfolio in times where we've seen stock stress.

So what's going on here? Let's look a little deeper at the bond element. Why have bonds been doing so well? Well here, what we're seeing on the screen is one way of referring to bonds, it's the 10-year U.S. Treasury note yield, highlighted by the green line, and it's showing it's changes in interest rate over the last five years. It's ranged from about, you know, 2.5% for a 10-year note back in August of 2014, down to a low of about 1.3% in August of 2015 or '16-ish on this chart, all the way over to a high of about 3.25% that we saw late last year. So, what's really been driving some of the return pattern of bonds has been this falling rate that you see on the far right-hand side of the screen, that green line trending downward. And as a reminder, when yield falls for bonds, prices for bonds tend to rise. So while bond yields right now have very low historical rates, the total return of owning bonds has been very positive.

Another thing to note quickly on this slide though is those orange dots. What they are highlighting are those nine periods since late 2015 when our central bank here in the U.S., the Federal Reserve, has actually increased very short-term overnight lending rate. And they've done that over that period here from late 2015 to late 2018, because our economy was more stable. It no longer needed the guidance of very, very low interest rates, because we were growing fine on our own, we no longer needed that lifeline of low interest rates. But given the fact that interest rates, driven by the bond market, are falling, what we've seen here is something by a technical factor called a yield curve. We know that this comes up in client questions that we've received, we know this comes up in the press that you may read, or TV that you might view.

And just a quick explanation, what it's really highlighting is that the market believes, by viewing something like a 10-year U.S. Treasury yield, is not growing as fast, and does not have as high of inflation, as maybe something that very short-term interest rates would have in terms of the Federal Reserve control. So those short-term rates are higher than the longer term rates. That's why it's called something called inverted. And it can signal a slowing economic growth scenario.

And that's exactly why the 10-year is falling here. And it really goes back to a slowing economic growth scenario. Not recession, but slowing. And a lot of this is emanating from a global manufacturing slowdown that we have seen here at Strategic Advisors over the last year and a half or so. Now there's a lot of lines on this page, a lot of different colors, but it's actually a very instructive chart for me to explain very briefly of what's transpiring. It's a chart that goes back to 2016, and it's highlighting essentially business activity, or manufacturing activity across the globe. Each color here is highlighting a different region or country, and it's something called a purchasing manager index. And very simply, a survey goes out to senior executives at manufacturing company or businesses, and asks are you getting more orders? Are you seeing more activity? And when that response comes back in a positive way, what you tend to see is those lines are above the middle 50 line on the left-hand side there that's going across horizontally, it's a dotted line, where these businesses, or these economies, are in expansion. Now when it's on the negative side, or contractionary side, those lines would drop below the dotted line. It would be in more of a recessionary type scenario for these manufacturing businesses.

And so what you can really see here, in an upward slope on the left-hand side of this page, throughout '16 and 2017, where we were seeing growth across businesses and manufacturing, and economies, in what we would refer to back then as a global synchronized recovery. Sometime in middle of 2018, we saw economies outside the U.S., highlighted here by the eurozone in gold, or the UK in orange, and certainly China in green, all slowing. Now the U.S. in black has only seen a slowdown in manufacturing since late last year. Overall though, the trend more recently is signaling a more protracted economic slowdown coming from the manufacturing side of the economy. Now part of this is very normal. As you see economies mature globally, or here in the U.S., we would expect to see this leading economic indicator showing some slowing. But it's really been amplified by some of the trade tensions that have occurred over the last year or so. And I think this is what the market activity more recently is really responding to, is what seemingly feels like daily changes to the trade tension outlook, particularly between the U.S. and China.

So, over the last year or so, we have seen that there have been a number of trade discussions, whether it's been between the U.S. and Canada, or Mexico, or certainly the eurozone. But the one that may have mattered the most is the ongoing one that we have between China and here in the U.S. And the reason is, is because China and the U.S. are two of the most interconnected trade markets in the world. That's what we're seeing here on the right-hand side. Where each bubble is highlighting a different country, the size of the bubble is reflecting the size of overall trade to the economy. And the lines are really highlighting the level of trade flows between countries. The general takeaway here is China and the U.S. are the biggest ones, and they have the most lines extending around the world. So what we do with one another can have permutations throughout much of the global economy.

And so, many investors in the markets have been laser-like focused on day to day moves with what's happening, transpiring between trade officials. This is a little uncertain, and the reason is, is because it's really not driven by Congressional action or broad trade discussions that involve many parties. It can really be done unilaterally by our executive branch, or the president's administration. And so, that has led to some uncertainty in the markets, and really understanding how this can play out. Now the hope for many investors is that we actually see a near-term deal that would be straightforward for businesses, where they know what the rules to play by in coming quarters or years, but we believe here at Strategic Advisors that that may be a little shortsighted to expect a very near-term trade deal where everything is covered off on. And the real reason here is, is because there are some very strategic growth initiatives at play that both China and the U.S. believe are very important for long-term growth themes for both economies, that's a little of what you see on the left-hand side, and it comes in that center part of that Venn diagram, is that both China and the U.S. want to own the space as it relates to advanced industrials, certainly information technology, and high-tech manufacturing, and intellectual property protection. And those are very difficult sticking points for either economy to really budge on. So while we may have some near-term trade deal around maybe tariff delays, it's unlikely that we're going to see any sort of all-encompassing trade deal, given some of these strategic initiatives at play. Brian, do you want to add something there?

Brian Enyeart: Yeah, just Lars, I was going to mention that you know, we've seen the world become more globalized over 20 or 30 years, where manufacturing has moved from the United States, it's gone to primarily and initially China, and then many of the other emerging markets. And what that's led to has been lower prices over time, you know, the success of companies like Walmart being able to offer goods at very inexpensive prices, has been good for the American consumer in many ways, but Lars, do you want to comment on if we continue to see more trade challenges, what that might mean for prices than if we see less globalization going forward?

Lars Schuster: Yeah. So I think that's spot on, Brian. We've all benefited as consumers in this country from globalization, as you noted, over the last few decades, where we've paid lower prices for various goods, whether it's apparel or furniture, or even certainly technology and phone parts, and phones overall, cell phones. So should we have tariffs enacted, and larger tariffs over time on more goods, that very well could lead to higher consumer prices for some of those goods. And it's something that we're watching very closely, we actually have an inflation expert on the team who we get updates frequently on the outlook for inflation, particularly as it relates to the consumer. And while things are very well contained right now, this is one of those wildcards that we do want to watch, because higher prices can take dollars out of the consumer pocketbook that they may spend elsewhere, and it can really change the profile for corporate earnings as well.

Brian Enyeart: And then maybe one thing Lars, we can talk about, if globalization has meant lower prices historically, and less globalization might mean higher prices in the future, maybe as we talk about the portfolio, we could talk about how we are trying to protect the portfolio from the potential for higher inflation in the future, because we can pivot from the impact to the consumer, and what lower prices has meant for their wallet, to what it might mean for their investment portfolios over the foreseeable three to five years.

Lars Schuster: Absolutely. And I look forward to kind of sharing some of that activity, because watching inflation trends has been very important, not only for our client portfolios and trying to add those types of investments that we think would benefit from potentially higher inflation, but also watching it from where we are in the business cycle. As we'll talk about in just a few minutes, what we tend to see as the economy matures, and particularly the U.S. economy, is higher inflation. However, I would just caution, we're not really seeing those trends quite yet, and a lot of this is not -- is just news, and it's not actual fact quite yet. Now I don't want to make this all seem like it's just bad news on the horizon, because there are some positive things happening as well.

In fact, from a consumer perspective that we were just talking about, one of the things that really drives the confidence in the health of the consumer is that there is very strong employment in this country. The job market is remarkably healthy, and what we're looking at here on this screen is looking at weekly unemployment claims on a four-week moving average, it's a chart that expands about 50 years, and the reason why we had to go back 50 years is because today, it's as low as it has been in five decades. So a very healthy labor market, unemployment remains quite low, and what this means is that you have a tight labor market where individuals can start to ask for higher raises, potentially. And this is another item we've been watching very closely, because as people get paid just a little bit more, that may come out of corporate profit margins for companies.

However, that's not really happened in earnest, and in fact we've seen wages only slowly rise over the last few years, and more recently they've actually stalled. And so, this actually, in a strange way, can be a benefit for companies and their corporate earnings, which drives stock prices, because they're not spending nearly as much as maybe historically they have, in terms of wage inflation.

Brian Enyeart: And so, Lars, do you want to share any thoughts around when we see the jobless claims is as low as it is, does that give us any indication for how long of a cycle we might be seeing? Can it stretch the cycle?

Lars Schuster: Well, we don't -- we want to be careful not to prognosticate of what these things could mean for the future. It's very possible that we can see unemployment claims really kind of meander down at this bottom for some time. In fact, we saw it in phases of the late '80s, we saw it throughout much of the 1990s, so it's distinctly possible that just because it's at 50-year lows, doesn't mean that it has to go straight up in near-term. In fact, it kind of bumped along for some time, and stalled out here. What it does potentially portend is that it's hard to have significant growth from here. So this still just paints a picture of kind of slow, deliberate, glacial growth. But not really recessionary in nature at all.

Brian Enyeart: Good.

Lars Schuster: So, you know, this level of unemployment that is historically quite good, one reason why it's so important is because about two thirds, or about 70% of U.S. economic growth, is driven by the consumer, and if the consumer is feeling good, they're at work, they've seen maybe housing prices rise over the last several years, it tends to keep the economy afloat. And that's what we've seen over the last year, in fact, economically here in the U.S., is that the consumer is really keeping things moving at this 2% to 2.5% growth level. And so what we're looking at here is U.S. consumer confidence is about the highest we've seen in about 15 or 20 years since the downturn in the beginning of this century, and now look, confidence can take a hit, and where it can take a hit usually is from job loss. And we have not seen a significant amount of job losses piling up, for sure, as we noted on the last slide.

But also, can take a hit from markets. And that's why we've probably seen this bounce a little around over the last year or so, as markets have become a little bit choppier, we're all normal human beings here, we look at our account balances, and when we see that maybe they're a little flatter, we may not feel as confident. And so it's not a surprise to me to see that this confidence line has risen in a manner that's consistent with stock growth over the last decade or so.

Brian Enyeart: Yeah, so Lars, so we've got a couple of actual positives here. So while the market volatility might make investors nervous, we've got some economic data with the job market feeling strong, the consumer confidence is high. And maybe do you want to pivot into talking about how we translate that into what it'll mean for the listeners' and webcast viewers' portfolios?

Lars Schuster: Absolutely, and I think everything that I just laid out is really highlighting what we believe is important to our investment process, which is really just understanding where we are, i.e., the U.S. is, in the business cycle. And this is a very pedantic or something you probably see in a scholarly textbook, of what the business cycle would look like, this typical kind of boom and bust cycle. And let me just briefly explain it, it comes in four phases, you have early, mid, and late. What that's really referring to is expansion. It's growth. You can think about early cycle as something like 2009 and 2010, as the economy is coming back to life, people going back to work, you begin to see the availability of credit, people beginning to buy things, companies beginning to invest back into the businesses. And then you go through this long expansion where people go back to work and get paid a little bit more, you see broader economic activity. Now, one of the key reasons why we follow the business cycle is because one is long and slow moving, and two, it's because it has a very strong connection to investment markets. So throughout this, we can use this as a slow playbook change of how we may allocate or provide different investments for our client portfolios.

So when you're in early cycle, I would refer to this as party time central. This is when you want to be invested in stocks, you want to own more of them relative to your own long-term asset allocation mix. And as you progress throughout, you want to begin to modify or tilt differently the types of things you want to own. Today, we do believe we're in late cycle expansion, this is not recession, this is just more moderate growth, and what we tend to see in this stage is that corporate earnings begin to come under pressure. We begin to see inventories grow, like for example, we've seen automobile inventories begin to grow. And what this means is that we've slowly been taking down some of the risks in our client portfolios relative to their long-term asset allocation mix, than we were two, three, five, and eight years ago. Because things are beginning to mature. The other key thing about late cycle is we begin to see a variance in asset class returns, something that we keep in mind.

Brian Enyeart: So, Lars, one thing that this picture maybe doesn't reflect is you talked about this low and long cycle. Early, mid, late on this picture, they look like they're equal timeframes. But one thing I'd maybe comment on is that early cycle can be a reasonably quick period or part of the cycle, mid cycle, as we've seen in this last cycle from the 2008 recession through the 2009 recovery, we've been in mid cycle for most of this time, which is a healthy, stable period of time where you maybe see some markets, some quick little market corrections, but you don't see really long downdrafts over that mid cycle. How long do you think we might see as a late cycle? What is a, not that we're going to see a typical late cycle this time, but how long is that usually?

Lars Schuster: Yeah, you're right Brian, we've studied 10 business cycles dating back to 1950, and on average, late cycle lasts about 16 to 24 months, somewhere in that territory. And to your point, that this has been one of the longer business cycles that we've lived through since 1950, if not one of the longest. And to your point, mid cycle actually lasts about 60% of the time or so. You spend most of your time in expansion. And while none of us loves going through recession, it is also a very quick timeframe, similar to early cycle. On average, it lasts about nine months or so.

Brian Enyeart: And maybe Lars, one other thing for us to talk about is, we show the U.S. economy here, not all economies are going through a cycle at the same moment. Do you want to share some thoughts on how maybe we think about China or other countries going through a similar sort of cycle?

Lars Schuster: Sure. And we do look at 15, 20 different other business cycles around the world. Much of the developed world, so think about this as many European countries, or Japan, or Australia, certainly Canada, also find themselves somewhere in this late cycle, very mature economic growth bucket. We would put China in the recession phase of this particular view. But they do have positive growth. What, something we refer to as a growth recession. So in other words, they have below average long-term growth.

And this has actually been a key dynamic we've been watching as it relates to international stocks and international growth, because it's kind of brought down a lot of the other economies that it's significantly tied to.

So one thing I really want to draw upon here, Brian, is what we've been doing in client portfolios before we move on, and have a bit more of a conversation around recent volatility, and what it means over the long-term, it's just the simple dynamic, again, looking at certain key asset classes, it's not all of them, and how they've performed on average across mid and late cycle dynamics since 1950. So, I would really reflect on the right-hand side of this, when the green is stock, and you can see the difference between stocks in late cycle and mid cycle, while still positive, the returns on average are lower. Same thing for the gray bar, the high-yield bonds bucket. And then the blue bar, that's highlighting bonds, also has slightly lower returns, but still positive. And I think the point that I would want to make here about late cycle is that you see a greater variance between asset class returns, because uncertainty begins to grow.

Now one word of note on this page. It's a slide that maybe many of you on today's call have seen before, it's something that we've used in quarterly market updates on Fidelity.com, that orange bar is reflecting commodities.

And as we noted earlier, as inflation begins to rise, and normally throughout late cycles, we see higher inflation, because growth is overheating, and it's one key reason why the Federal Reserve is actually raising interest rates, commodities can play a role as an inflation-resistant type asset. Or try to hedge some of the increase in inflation.

One word of note here is that this includes the 1970s, which we saw rampant inflation. We don't believe we're in the same type of scenario as the 1970s, so the return patterns that are coming out of this particular slide may not be representative of where we believe commodities are today. So, we do have some commodities in client portfolios, but nowhere to the level that one would expect if you viewed this in the context of the 1970s.

So over the last couple of years, given this slow transition to late cycle, what we've been doing across client accounts is a broad de-risking. We've been slowly taking down weights in stocks, slowing taking down weights in things like high-yield bonds, and when I say stocks, I also mean international stocks as well. And what we have been doing is raising the profile and the allocation to bonds. Because they play that diversifying element, but they're also just a bit more stable throughout the cycle.

Brian Enyeart: One thing that you've highlighted here is that while we're in a volatile environment and the economy is starting to slow, interesting for me to see that the green stocks bar through late cycle is still very positive, stocks performing better than bonds over this period. And so, you know, I take away that while we're in a volatile period, we're getting good returns, and we should expect to see good returns from both stocks and bonds. So even though there's volatility, and it might feel painful, there are still good returns. And I think the year to date period for U.S. equities, still up 18% year to date, you know, we're in a late cycle and volatile environment, is a good indicator maybe of the opportunity that you get from being patient, through late cycle.

Lars Schuster: I think that's exactly right, Brian, it's a defining characteristic of late cycle, that we tend to see more volatility, and things just feel choppier.

So it leads us to the importance of thinking about the long-term here. I know this can be a tired message for some, because we're all human, and we feel the near-term performance of watching our critical assets move up and down on a daily basis, but an important element of living through some more volatile environments is really thinking about the context of a time horizon. And for many of our clients, you all have time horizons that range, whether that's 3, 5, 10, 20 years in the distance.

And one thing I just want to provide here is a sense of hope and optimism, and that while it may feel a little bit choppier over the last year, or even over the last week, time is on your side, and typically what we've seen is that the longer that you have, the higher the probability of a good outcome. And this is really showing both the benefits of remaining invested over the long-term, and having a positive outcome, as well as the benefits of owning bonds on this page. What we did is, we looked back simply just at stocks and bonds over various time periods, and what was the percentage of the time that they actually had negative returns, dating back to the 1920s? And what you see in blue on the one-year column, on the very first column, is that bonds had negative returns over any one-year period dating back to 1926, about 12% of the time. They can have negative returns. But when you look out to 3, and 5, and 10 years, the odds of having a positive outcome are beyond good. In fact, we've never seen a 5 or a 10-year period where bonds have actually had negative returns.

Now stocks are more volatile over any given one year. And that's you see in green, over any one-year period, they may have negative returns about 25% of the time. But again, the odds of success go up, and up, and up, the longer the time horizon that you stay invested. And over any time, 10-year time period, we've only seen negative returns about 5% of the time. So Christin, who's also on the call, that was introduced by Brett earlier, I just want to reflect on this for a minute from a client financial planning perspective, this notion of time horizon. This has got to be one of the most important elements that you reflect on with clients, would that be fair?

Christin Haley: Absolutely, Lars. It's important, it's extremely important for clients to think about their time horizon, as well as their risk tolerance, and their overall financial plan, which I'll certainly get into more detail on. But it's fair to say that many clients on the call have a time horizon that's longer than the one year, even the chart we see up on the screen at the moment, so that if they've got the patience, and they can fight against that behavioral bias, and that aversion to losses to stay invested, then they'll be rewarded for doing so.

Lars Schuster: You know Christin, you talked about that aversion to loss, and I think I -- this is a great transition to what we should all do when markets move, like we've seen recently. And this notion that it feels painful to have to endure short-term losses, but as I look at this slide here, and the point that I really want to make is that market corrections, and when we see market movements on the downside, they're very, very normal. And so maybe before I ask another question here, let me just explain what you're all seeing on this slide. It's looking at stocks, and stocks being a very important growth element of client portfolios for those longer time horizons, like you've noted Christin. We looked at, in two ways here. One is the columns that you see in green and red. And this is looking at just calendar year returns, going back to 1980, for stocks. First takeaway you have, there's a heck of a lot more green on that slide than red. However, in fact it's about 80% of the time that, over these periods, that we saw stocks in the positive side.

But as investors, what we all probably remember are those red periods. And that's something that's reflecting that bias that you talked about, that risk loss aversion bias. But really, when I look at the most important element of this chart, it's those blue dots. Those are highlighting the largest intra-year declines in each of those calendar year periods. There's some big numbers on there, there's a minus 18, a minus 30%, there's a bunch of minus 15%, and even most recently, in 2018, just this past year, we saw a minus 20%. And when I average up all those blue dots over this 39-year period, the average intra-year market decline is about 14%. So, we should expect some of that volatility, we should expect to see market corrections. How do we all help clients through this sort of, this sort of very average market decline scenario?

Christin Haley: I think it's a matter of really knowing that these things do happen, being able to look at the historical data and know that we've been able to come out of them over time, and really focusing on your own specific financial situation. The market's going to do what it's going to do, it's not something that individual investors have any control over. So, it's a matter of making sure that they themselves have a plan, they're sticking to it, and they're really, you know, kind of grinning and bearing it in those negative environments.

Lars Schuster: Yeah. And I've heard in my travels the notion that behavioral things can really overwhelm, the emotional side of investing can really overwhelm our rational side. So having that coach, that behavioral coach there for you, can really provide a guiding hand to make sure that everyone stays invested to their goals. And I think that that's a good transition where I just want to finish on this slide, before maybe giving you just a minute or two Christin, on a few items, which is that most of our investor goals, in portfolios that we manage for clients, are very far in the distance.

And it's really important to not get caught up in thinking about the next stage of the cycle, which very well could be a recession. We're not prognosticating, we don't know when recession could even remotely smart. As I said, we really follow where we are in the business cycle, and most often, we find ourselves in expansion. So we want to simply turn that, and flip it on its head and say well how well do we do in terms of stock gains as an economy, or as a market here in the U.S., during those expansionary periods, versus those recessionary periods? Which most investors really want to try to stay away from? Because they feel painful. They have a very emotional reaction, very unnerving reaction. So what we're showing here is in blue, those cumulative stock gains during expansion. And you can see how far they outpace the losses suffered in some of those orange periods, which are recessions. And so, that's just something to keep in mind, that in this context, recessions really are just quite small in comparison. At the time, they feel quite painful, but they're really just kind of reverse speed bumps in this context.

The last thing I'd say, maybe before we turn it to Brian here for a parting comment, is that most of these environments in expansion, and for stock growth, actually start halfway through a recession. And it can be very difficult to call that when that ends, but the market tends to get there before the economy does.

Brian Enyeart: You know, just Lars, when you look at this, these are so much upside in expansion, and seemingly so little downside, but you know, just noting that these are cumulative returns, so if you look at 2008, the orange recessionary period, at the last recession, market's down almost 40%. Which is, having lived through that, unbelievably unnerving as a professional investor, let alone how the retail investor might feel, and our clients may feel when they see that. But the upside of 250%, if you translate that back into annualized returns, that probably averages out to something like 14 or 15% a year or so from '09. So, you know, while these seem unbelievable, 250% returns on an annualized basis, they come back to being sort of within our expectations for what the markets can deliver.

Lars Schuster: Absolutely. You know, let's transition to the last part before we answer a few more client questions. We tried to bake some of those, and we've already that we've already received, as Brett noted at the top of the webcast, into our prepared remarks. But we think it's very, very important that not only just to understand what's going on in the markets, but really have a plan for how you deal with that. And that really starts with just having a great conversation with your advisor. So Christin, could you provide just a few thoughts on this topic?

Christin Haley: Sure, absolutely. So we just received some great information, and now I'd like to take a few moments to share our thoughts on market conditions from a financial planning perspective. You might be asking yourself on the call today, what if anything you should be doing? And of course, as you probably know, the answer is, it depends. The reason it depends is because we've got a broad range of clients on the call today, and each of you have unique facts and circumstances. So it's difficult to give a one size fits all answer. But that being said, we've got some tips and considerations that will apply to many of you as you think through your own financial situation, and any action that you should take. As was clear for Lars' comments, at Fidelity, we believe in and stress the importance of staying invested, and not reacting to market movements. Instead, what we suggest you do is regularly review your financial plan. And if you don't have a financial plan, we strongly suggest you reach out to your advisor to work on creating one. You want to take a look at your plan and check on your progress to your goals.

Many of us have the same goal. If we're still working, number one, it's to accumulate enough money to retire. Number two, once we're retired, we want to be able to stay that way, and if we choose to work, we want to work because we want to, not because we have to. And our third goal oftentimes is to create a legacy for our family, our friends, and for the charities that are so important to us.

So how do we do this? We suggest reviewing your income, your expenses, and your assets, so that you can gain reassurance that you're on track in the current market environment, or determine where you might need to make any changes, if they're needed. You want to review your time horizon, which we touched on. When will you need to draw from your assets? Is it 2 years from now, is it 20 years from now? Has anything changed since the last time you thought about that, that might say, you know, your time horizon is a bit different? And again, you might also have different time horizons for your different goals. A legacy goal for family members, the time horizon on that will likely be longer than the time horizon for your own retirement. So thinking through that. And then also, your risk tolerance. What's your comfort level with risk on a scale of 1 to 10? Are you 1, extremely risk-adverse, or are you a 10, where risk doesn't bother you at all?

And how often should you do this? We suggest reviewing your plan at least on an annual basis, or when there's been some sort of a life event. So for example, the birth of a child or a grandchild, death of a loved one, marriage or divorce, retirement, getting a new job, or moving, all of those can impact your financial plan, and you want to make sure those changes are factored in. So, the bottom line really is that a regular review of your plan allows you to steer away from having a reactionary response to the market and allows you to gain comfort because you've got that plan, and you're staying better informed of your own situation.

And like we've already touched on, this might seem intuitive, and on many levels it is, but there is that human side to market volatility. And we want you to know, and hopefully we've illustrated this today, that you're not alone. It's natural to worry about these things, or possibly get a bit emotional, but that really is a good time to review and evaluate how you're feeling. Thinking through the risk tolerance that I mentioned a few moments ago. If you get to a point where you can't break away from the news, or that you're watching the market, you know, several times throughout the day, or if you're worried about reaching your goal, perhaps your risk tolerance is lower than you thought it was. You want to think about what fluctuations you can withstand regardless of where the market is.

And we can look back to 2008, we can look back to late last year, as cautionary tales. Right? Not predictions that that's going to happen now, but many people thought they had high risk tolerances, particularly in 2008, when we saw the market having increased for so many years. But then, you know, that all changed, and a lot of people cashed out, missing out on that recovery, as you all mentioned, that can come quickly if you're not prepared for it.

So, the bottom line there is that it's really easy to have a high risk tolerance when the market is increasing, but it's really more in periods of volatility or decline when one's true risk tolerance emerges. If we just think for a few moments about some situations where you might want to reach out to your advisor, people on today's call might be very comfortable with what's going on in the market, and you might be looking for opportunities to invest. Your advisor can certainly help you with that. If you're still working and retirement isn't on the near horizon, you're probably in good shape. Continue to review your plan, and save for retirement.

If you're getting closer to retirement, and we had several questions about this submitted ahead of today's webinar, webcast. If you're worried about reaching your goals, or you want to reevaluate your risk tolerance, it'd be a good time to reach out to your advisor. Your advisor can talk with you about creating a reserve of assets to have available as you transition into retirement, so they can cover your expenses for a period of time and minimize the chance of you needing to liquidate or sell any of your assets in a down market environment. And then if you're already retired, you might wish to check in with your advisor as well so that you can do a holistic review together. Again, taking a look at your income, and your assets. Your advisor can help find ways for you to make any changes if indeed some are needed.

As Brett mentioned at the beginning of the call, we are here for you. We're hoping that many of you maybe feel, you know, some light anxiety at most when it comes to what's going on in the markets today. But that overall, you feel comfortable, and that you're taking it all in stride. But certainly, if you're worried about reaching your goals, make an appointment with your advisor today so that you can check in and review your financial situation.

So now, shall we move onto some client questions?

Brian Enyeart: Great Christin, thank you. And I see we've got maybe 10 or 15 minutes to field some questions. We'll try and answer as many of the questions as we can. Brett mentioned at the beginning, we had hundreds of questions submitted, and what we tried to do was aggregate those into the themes that came out of most of those questions. And so, we've got a few. And so Lars, let me share the first question, and you can have some thoughts here. But the first question, which was on many people's mind, how dangerous is the trade war with China? It seems like it will last a while. What's the impact now, and in the future?

Lars Schuster: Yeah, and we did cover this during the prepared remarks. But I do think it's important enough that we probably just touch upon some of the key elements around it. You know, [what it?] really all resonates to me is this notion around peak globalization, the fact that we had jobs move, extend out of various countries, it cost less to make various manufacturing goods over the last few decades, what that did is open up trade and new businesses for different companies, as well as various economies, and lift them up, particularly smaller emerging market economies. And what it did for a lot of consumers is it made things cheaper. We may be on the other side of that trend now, as nationalistic trends around various countries, including maybe here in the U.S., are beginning to rise. And this notion that we want to level the playing field as it relates to corporate endeavors, as well as strategic growth initiatives, particularly as it relates to high-tech manufacturing, and IT, and intellectual property protection. But this notion of having this kind of tit for tat type of daily news flow, as it relates to trade, and whether or not we may levy tariffs, or whether or not the Chinese administration may buy future agricultural goods or not, is very unpredictable. It creates uncertainty, it reduces business spending, and it could lead to higher prices.

And all of that just kind of reflects and amplifies some of the slowing growth that we've already seen. It can be dangerous. But nothing's really happened quite yet. We've seen some cost being passed onto businesses, some cost being passed onto consumers. But it's only one of these things that we can just watch. But uncertainty is great, is certainly one of the great unnerving elements of investing, particularly when you're far removed from it, you don't know the playbook. So this is another key reason why we've been slowly de-risking our client accounts, just to bring it closer back to each client's expected long-term asset allocation mix. To ensure that they have their investments in exposures that are consistent with their goals, risk tolerance, and time horizons.

Brian Enyeart: So, sounds like we shouldn't anticipate that this sort of ends anytime soon, this trade war activity? And you mentioned de-risking the client portfolios, just to be clear for things like stocks in the portfolios, starting to take those stock levels down just a little bit to make sure that they remain in line with the clients --

Lars Schuster: You know, but it's also Brian, what you own within stocks and bonds. And within, for example, bonds for our client accounts, we've owned less high-yield bonds, and we've been increasing the level of exposure to higher quality bonds, including U.S. Treasuries, as well as corporate bonds that have a higher rating than maybe something a few years ago. So just overall, trying to create a more durable portfolio that has a higher quality aspect to it, that quality is one of those disciplines that can actually sometimes perform better relative to something like let's say more cheap valuation-oriented type investments.

Brian Enyeart: That's good, thank you. The second question that was frequently asked was, so where are we in the expansion cycle? And I know we touched on that, but is it becoming clear that this business cycle may be coming closer to an end?

Lars Schuster: Yeah. You know, and this is probably one of the number one questions we've received over the last decade in my time here at Strategic Advisors, and it's something that I heard back in 2012, 2015, and last year, as well as today, which is I believe this is a market top, is this going to end? Or maybe it's how long can this economic cycle really last? A very common question, the fact is, is we don't know. And this one has been longer than historical norms, but we want to be very sensitive that we don't forecast. We don't want to prognosticate on what things could be in 6, or 12, or 24 months. Rather, we nowcast. And what we've seen from our research is it's good enough that if you just know what may transpire today, and where you are economically, that translates well to corporate earnings growth, level of valuations in the market, and different investments, and overall economic growth for consumers, and so forth. So we want to be very, very sensitive that we're not going to forecast, and that we nowcast this.

I will say that there are some trends that are happening right now that are probably keeping us in this more extended cycle, which is very benign inflation, and that wage growth has stalled. Typically, what you would see at this stage is higher inflation, higher wages, and the Federal Reserve increasing interest rates, and higher rates is one of those things that usually tips the economy into recession, because it chokes off future credit growth, where businesses and consumers just stop borrowing. And we're not seeing that today. Actually, banks are very open to lending, and credit conditions are still very, very benign.

Brian Enyeart: And I think the punchline of what I hear you saying here is that in the nowcast and forecasting, is that if we know where the economy is today, we're going to be able to build a very resilient portfolio for what the market is likely to do in the near-term. Is that the right (overlapping dialogue; inaudible)?

Lars Schuster: That would be a good way of saying that, yes, absolutely.

Brian Enyeart: All right, so let's get to our third question. Related to, you know, how we should think about recessions, but do you believe a recession is right around the horizon?

Lars Schuster: Well we don't see any imminent signs currently. However, it's distinctly possible that you could see recession risks rise. One that has been bandied about quite a bit over the last several months is something called the yield curve inversion. I mentioned this earlier, it's when you tend to see very short-term interest rates higher than longer term interest rates. It tends to historically be a very strong signal of some future recession, but that's usually historically 12, 24 months out. So we want to be careful not to overreact to it. The other thing we don't want to overreact to is daily moves in the market. And in fact, this year, while we're up about 18% U.S. stocks, we've actually seen two times where we've seen stocks fall about 6 or 7%. And it reminds me of this old quote by Paul Samuelson, a famous economist back in the 1960s, when he said the stock market has forecasted nine of the last five recessions. In other words, the market can sometimes overreact to near-term news. And we want to be sensitive that we're taking all of these indicators, putting it into a mosaic, and not overreacting to short-term news.

Brian Enyeart: Right. Right, so we are not going to move the portfolio aggressively when we see a market dip, or a market top, we're going to continue to look for the economic indicators that are going to show whether we think we're getting closer to a recession.

Lars Schuster: Yes, and investing can't be gut driven. It needs to be driven by very boring but disciplined investment process, and that's something we always come back to, whether it's good times or maybe more challenging times.

Brian Enyeart: Thank you. All right, so this next question around being close to retirement, maybe Christin, this is a good one for you. Should I have concerns over all of this market volatility? Should I be thinking of things differently than I'm feeling about this market volatility?

Christin Haley: Right. When a client's transitioning, or getting close to transitioning into retirement, take a -- give some thought to the time horizon that you have. You need your retirement assets to last through your life expectancy, which could be anywhere from the last eighties to mid-nineties. So, your assets really have the timeframe to withstand even a short-term dip in the markets. So that's why you might think about, again, creating that cash reserves, or that pool of assets that can at least help you transition into retirement, and maybe cover that time period before additional income starts coming in. For example, when you start to claim Social Security, or required minimum distributions from retirement accounts and so forth. Then your needs from the portfolio might not be as great, and all that said, it may mean that you might not necessarily need to make any changes. But certainly, for a specific situation, you'd want to reach out to your advisor to just think through those specific details.

Lars Schuster: Can I just add one thing to that, Brian? And it's something that I've heard quite a lot. As you do come in and talk with us about your plan, and if you are just in retirement, or planning for retirement, that's not probably the end, right? Your time horizon could extend much further. And so, don't think about the next year or two as the finish point, it's probably just the start of the next part of your journey, which could last decades. And so, being very cognizant that we're likely to go through a few more market cycles during this phase is really important to how you might allocate assets in your portfolio.

Brian Enyeart: Great point here. So I think we have time for one last question. And there were a few questions that came in around the portfolio, and so the question I'll give is, what are we doing to help minimize loss and take advantage of opportunities during market times like these?

Lars Schuster: So, I guess Brian, well what I was reflecting on is that what's most important is something that goes back to what Christin was talking about, is that just ensure that every client has your own particular situation, and that if you're talking to your neighbor or your friend, they may be in a very different environment, so try not to compare too many notes. Everybody always wants to tell you a great success story of something that they've done, but just having a plan that makes sense for you, and sticking to it, is very, very important. So the things that we might do always go back to your plan. It goes back to your time horizon, your goal, your risk tolerance, the fact that we want to make sure that we're allocating and changing investments specific to you, so a client who's very conservative, shorter time horizon, lower risk tolerance, they may only have 20% in stocks, we may have a much more conservative profile of how we may adjust that portfolio, say versus someone who has 85% in stocks, and can withstand greater volatility. But overall, over the last several years, as I talked about, as we've seen the business cycle mature, for most client accounts, but not all, depending on your situation and your preference for investing, we have been reducing risk, and that has meant reducing the ownership of stocks closer back to your long-term asset allocation mix, lowering of exposure to high-yield bonds, and increasing more into investment grade bonds.

And then within those areas, owning managers that we think can withstand better, given their investment process, late cycle type activity. So they may have a more quality focus, they may have a more growth focus, versus something value-oriented, which tends to do very well in an earlier part of the business cycle. So those are just a few things.

Brian Enyeart: So even for a portfolio that may be a 50% equity portfolio, and the portfolio is currently at 50% equity. Inside the equity, we're going to continue to evolve that exposure to move towards more quality as we get later in the cycle, and you know, anticipating future expansionary periods, we would take on more growth orientation in the portfolio, growth opportunities in the portfolio.

Lars Schuster: That’s exactly right. Exactly said.

Brian Enyeart: Great.

Brett Wollam: So, Brian, Lars, and Christin, thanks for joining our event today. A couple of closing thoughts, first of all, thank you for being with us today, we hope you found it valuable. If you have additional questions about your portfolio, your financial plan, or anything you heard today, please feel free to reach out to your Fidelity advisor for a more personal discussion. Thanks again for joining us and enjoy the rest of your day.

END OF AUDIO FILE

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