Managing Client Accounts Through Recessions

Strategic Advisers LLC
We Believe in the Power of Long-Term Investing, as Stocks Have Grown Significantly Over the Years

Focusing on your long-term goal is vital through market downturns.

- Stocks have experienced tremendous growth over the decades despite several recessions along the way.
- As shown on the chart, market returns since 1950 have been positive on average.
- Additionally, the economy has been in expansion the vast majority of the time over this time span; recessions have been less common.
- We believe that investors who stick with their investment plan tend to be rewarded over the long term, because after recessions, stock markets have typically expanded for years.
- That’s why we follow a disciplined investment process in managing your account to help you reach your long-term financial goal.

This chart illustrates the cumulative percentage returns 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. Source: Bloomberg, S&P 500 Index total return for 1/1/50 to 12/31/19; recession and expansion dates defined by the National Bureau of Economic Research (NBER).
Our Deep, Proprietary Research on the Business Cycle Helps Inform Investment Decisions

Different types of investments have performed differently throughout the business cycle.

• Using our extensive research capabilities, we seek to understand where the U.S. economy resides in the business cycle to help us manage client accounts.

• For example, typically in recessions, we see signs of falling profits, slowing manufacturing, unemployment moving higher, and tighter access to loans.

• During recessions, bonds and short-term investments have generally performed better than stocks.

• Historically, the economy has started to stabilize a few months into a recession, before an early-cycle expansion begins.

• During early cycle, as the economy starts to recover, stocks have performed better than bonds and short-term investments.

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

Early
• Activity rebounds (GDP, IP, employment, incomes)
• Credit begins to grow
• Profits grow rapidly
• Policy still stimulative
• Inventories low, sales improve

Mid
• Growth peaking
• Credit growth strong
• Profit growth peaks
• Policy neutral
• Inventories, sales grow; equilibrium reached

Late
• Growth moderating
• Credit tightens
• Earnings under pressure
• Policy contractionary
• Inventories grow, sales growth falls

Recession
• Falling activity
• Credit dries up
• Profits decline
• Policy eases
• Inventories, sales fall

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.
As the U.S. Economy Shifts, We Are Likely to Modify the Mix of Investments in Client Accounts

We may reduce risk at the onset of recession, but increase exposure to stocks as the economic backdrop improves.

- We believe that the adjustments we make to your account will help keep you aligned to your long-term financial goals.
- At the onset of recession, stocks, commodities, and high yield bonds tend to experience increased volatility, so we may reduce exposure to those investments, leaving client portfolios less prone to volatility.
- We may also increase the amount of investment-grade bonds and TIPS, as they tend to provide stability during recessions.
- Later in the recession, historically we have typically seen signs that the economic backdrop is stabilizing.
- As that occurs, we may seek to reduce exposure to investment-grade bonds and TIPS, and increase exposure to stocks and high yield bonds.
- This can help performance, since stocks have historically performed better than bonds after recessions.

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.
No Matter When They Start Investing, Long-Term Investors Can Achieve Similar Outcomes

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.
- That’s because even if an investor enters the market during a recession, they are likely to experience strong stock market returns during the early-cycle phase of the business cycle.
- 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 returns.
- Instead, we believe that remaining disciplined and sticking to a long-term investment plan may be a more reliable way to achieve a long-term financial goal.

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. 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 U.S. Aggregate Bond Index, as of 12/31/18. *Does not include inflation.
Missing Out on the Best Days Can Cost Investors

Jumping in and out of the market can significantly reduce your portfolio value.

- When markets fall, we understand that it can feel stressful to see your investments lose value. In fact, some investors may be tempted to abandon their strategy when markets decline.
- However, jumping in and out of your investment plan and trying to time the markets can result in missing out on future gains.
- As shown, an investment of $10,000 in the S&P 500® Index in 1980 would have grown to $659,515 by 2018. Missing out on even five of the best days over that period would have greatly reduced the portfolio’s value.
- Backed by our deep research and experience, we remain patient and disciplined through periods of market stress.
- By taking a long-term view, we believe that investors who stick with their plan and stay invested may have a better chance of reaching their financial goals.

Past performance is not a guarantee of future results. The hypothetical example assumes an investment that tracks the returns of a S&P 500® Index and includes dividend reinvestment but does not reflect the impact of taxes, which would lower these figures. “Best days” were determined by ranking the one-day total returns for the S&P Index within this time period and ranking them from highest to lowest. There is volatility in the market and a sale at any point in time could result in a gain or loss.

Your own investment experience will differ, including the possibility of losing money. Source: Bloomberg as of 12/31/18.
Investing in stocks during the last 10 recessions has led to rewarding returns in recoveries.

- Many investors may find stock market volatility during recessions disconcerting.
- However, recessions can also present investment opportunities for long-term investors.
- Historically, because stocks have typically experienced volatility heading into and during recessions, investors have had opportunities to acquire stocks at discounts to their previous valuations.
- Then, over the following years, when stocks have recovered from their recession levels, they have typically delivered strong returns.
- With our disciplined investment approach, we keep the emotion out of investing and seek investment opportunities to help you achieve long-term financial success.

For illustrative purposes only. Recession dates from NBER. Past performance is no guarantee of future results. It is not possible to invest directly in an index. All indexes are unmanaged. See Important Information section for index information. S&P 500 index monthly total returns from 12/31/49 to 12/31/19. Source: Bloomberg Finance, L.P.
Patience Has Been Rewarded Over the Long Term

**Investors who have stayed in the stock market longer have been more likely to see gains.**

- Investors who have kept a long-term perspective and stayed invested in stocks have had a better chance to experience positive outcomes.
- For instance, since the start of 1928, day to day, stocks have had a positive outcome just over half of the time.
- However, from 1928 to 2019, stocks have had positive outcomes more than 97% of the time over 15- and 20-year periods (based on calendar year returns).
- We believe that staying invested over the long run can improve an investor’s chances of a positive outcome, and help them reach their long-term financial goal.

Source: Bloomberg, as of 12/31/2019. U.S. stocks reflect S&P 500 returns. **Past performance is no guarantee of future results.** This is for illustrative purposes only and not indicative of any investment. An investment cannot be made directly in an index.
Key Takeaways

Despite occasional market downturns, stocks generally grow more than they contract.

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

We believe that investors who stick with their financial plan through periods of market volatility are more likely to achieve their financial goals.
Views expressed are as of March 25, 2020, and are subject to change at any time based on market and other conditions. Data is unaudited. Information may not be representative of current or future holdings.

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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Indexes are unmanaged. 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.

Dow Jones US Total Stock Market Index is a float-adjusted market capitalization-weighted index of all equity securities of US headquartered companies with readily available price data.

MSCI ACWI (All Country World Index) ex USA Index is a market capitalization-weighted index designed to measure the investable equity market performance for global investors of large and mid-cap stocks in developed and emerging markets, excluding the United States.

Bloomberg Barclays U.S. Aggregate Bond Index is a broad-based, market-value-weighted benchmark that measures the performance of the investment grade, U.S. dollar-denominated, fixed-rate taxable bond market. Sectors in the index include Treasuries, government-related and corporate securities, MBS (agency fixed-rate and hybrid ARM pass-throughs), ABS, and CMBS.

Stock markets, especially foreign markets, are volatile and can decline significantly in response to adverse issuer, political, regulatory, market, or economic developments. This material is provided for informational purposes only and should not be used or construed as a recommendation for any security. This presentation does not constitute an offer or solicitation to any person in any jurisdiction in which such offer or solicitation would be unlawful. Nothing contained herein constitutes investment, legal, tax, or other advice, nor is it to be relied on in making an investment or other decision. No assumptions should be made regarding the manner in which a client’s account should or would be handled, as appropriate investment strategies will depend upon each client’s investment objectives. None of the information contained herein takes into account the particular investment objectives, restrictions, tax or financial situation, or other needs of any specific client. Certain strategies discussed herein give rise to substantial risks and are not suitable for all investors. The information contained in this material is only as current as the date indicated, and may be superseded by subsequent market events or for other reasons. The information provided by third parties has been obtained from sources believed to be reliable, but Strategic Advisers LLC makes no representation as to its accuracy or completeness. Statements concerning financial market trends are based on current market conditions, which will fluctuate. Investment decisions should be based on an individual’s own goals, time horizon, and tolerance for risk.

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