

Market Commentary

INVESTMENT STRATEGY GROUP | MARCH 26, 2020

Using Your Plan as Your Compass

Clearly, global financial markets are experiencing significant price instability due to the COVID-19 public health crisis as the market seeks to calculate its impact to economies and corporations worldwide.

So far in March, the S&P 500 Index has experienced daily price swings ranging from -12% to +9% with an average daily change of 5%. Similarly, equity trading volumes have doubled this month compared to the first two months of 2020. We have not experienced this level of volatility in 11 years, exacerbating the discomfort. We expect that market volatility will subside when the virus is contained through successful treatments and a vaccine.

MARKETS WILL EVENTUALLY RECOVER

We do not know the depth and breadth of this bear market, but we have faith that it will not last indefinitely. In fact, by studying history, we know that equity investments with time horizons of 10 years or more will likely not only recover from a +20% bear market drawdown in less than the desired 10-year period but will typically go on to reach possible new highs in the next bull market run. Since 1960, the U.S. economy has experienced 18 bear markets and an equal number of bull markets. During the last 60 years, all bear markets have been followed by a recovery. On average, the bear markets have lasted 11 months, posting returns of -26.3%, and led to subsequent bull markets that lasted 28 months, posting returns of +76.1%. While the cause of every bear market is unique, this one resulting from a pandemic public health crisis, we believe the current bear market, akin to all previous ones, will also experience an eventual recovery.

YOUR FINANCIAL PLAN IS YOUR COMPASS

As we assess the impact of the current volatility and price movement on our investment models, we find that some clients are reacting to their financial preparations

with a sense of peace because of our financial planning advice and the time-based portfolios that they've committed to in collaboration with their advisors. Most clients are rightly focusing their attention on protecting their health, the health of their loved ones and, in some cases, several folks are finding capacity to support their local communities, albeit from a safe social distance.

We'd like to remind clients that their financial plan serves as a compass during both bull and bear markets. Most of us live busy lives and may overlook the need or forget to dedicate time to update our financial plans to match our current circumstances. Therefore, we encourage all clients to revisit their unique plans periodically to ensure adequate financial preparation for the future. For investors who may have been reluctant to dedicate time to a financial plan, or who may have delayed changes to a financial plan until "next time," we implore you to make this a priority with your advisor at your next scheduled appointment.

IS NOW THE TIME TO REPOSITION?

We have received some client inquiries seeking to reposition their investments in a more defensive or more opportunistic manner during this unstable period. In both cases, the best advice we offer is to reference the financial plan that was created uniquely for you in collaboration with your advisor. During bull markets, the financial plan serves as a compass when investors often hope to either keep up with, or even outperform, common indexes that may not reflect the appropriate asset class matching their investments.

For a client who may feel anxious about market declines, the primary concern typically relates to financial preservation and the fear of an intermediate- or long-term portfolio not "recovering" in time for the assets to fulfill their intended use. Sometimes clients are interested in selling either a portion or an entire basket of

time-based bond and equity holdings to hold cash. However, doing so destroys wealth instead of preserving it. History has shown that most unanticipated drawdowns are followed by unanticipated strong market gains. Therefore, a client who sells assets out of fear during market declines not only locks in losses, but also increases the likelihood of missing the following equally strong gains that allow assets to recoup their temporary losses. However, if you need access to cash, perhaps to temporarily bridge the working capital of a small business, work with your advisor to logically and realistically think through the impact of selling intermediate- or long-term assets in a manner consistent with your financial plan.

Conversely, there are opportunistic clients who are interested in deploying cash hoping to time the market bottom and quickly profit from a market rebound. Just as the timing and magnitude of bull markets are difficult to consistently predict, the span and breadth of market bottoms are equally as difficult to consistently forecast, especially during this unpredictable global pandemic. While the extensive monetary and fiscal stimulus just announced will serve as a cushion for individuals, business owners and corporations, no one can predict who the ultimate winners and losers of this market drawdown will be.

For clients seeking to aggressively reposition assets, we encourage you to first reference your compass, or your financial plan, in conjunction with your advisor. If your income continues to exceed your expenses, creating financial sustainability, and your short- and intermediate- portfolios match your plan, then it may make sense to periodically add to long-term assets.

OUR PROCESS

Our investment process at Ronald Blue Trust includes a systematic, rules-based, unemotional process that anticipates and positions time-based portfolios for both bull and bear markets. We seek to protect assets by matching time-based, diversified portfolios with goals outlined in a financial plan. We regularly measure growth and valuations in asset classes and global markets to properly position portfolios for clients to increase the probability of successfully achieving the

intended use of their assets. We prudently trim exposure to over-valued assets that have slower growth prospects in favor of adding exposure to under-valued assets that have higher growth prospects. In constructing our strategies, we partner with expert third-party managers who have undergone a thorough screening process. During times of uncertainty such as now, we are reminded of the primary compass, our God, the One who reminds us to look upon Him to find courage and patience. He created us in human form and to react emotionally when we feel discouraged or restless. As we know that storms pass, rains subside, winds cease and clouds clear making way for bluer skies and sunshine that allows for continued growth, a similar cycle will be true of financial markets. We expect stocks and bonds to recover in time. While we wait for recovery, we seek His direction and find patience within ourselves to withstand the temporary discomfort.

*Rest in the Lord and wait patiently for Him;
Do not fret because of him who prospers in his way,
Because of the man who carries out wicked schemes.
Psalms 37:7*

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