LEGACY
FINANCIAL STRATEGIES

COVID-19 + Market Update

Mar.13, 2020 - market close

- China's virus numbers are a great sign assuming their the data is valid.
- Two potential scenarios are playing out - still too early to tell which materializes.
- Your investment time horizon is paramount.
- Portfolio adjustments are being made where appropriate.
- Long-term investors will find opportunities in the short-term turmoil.

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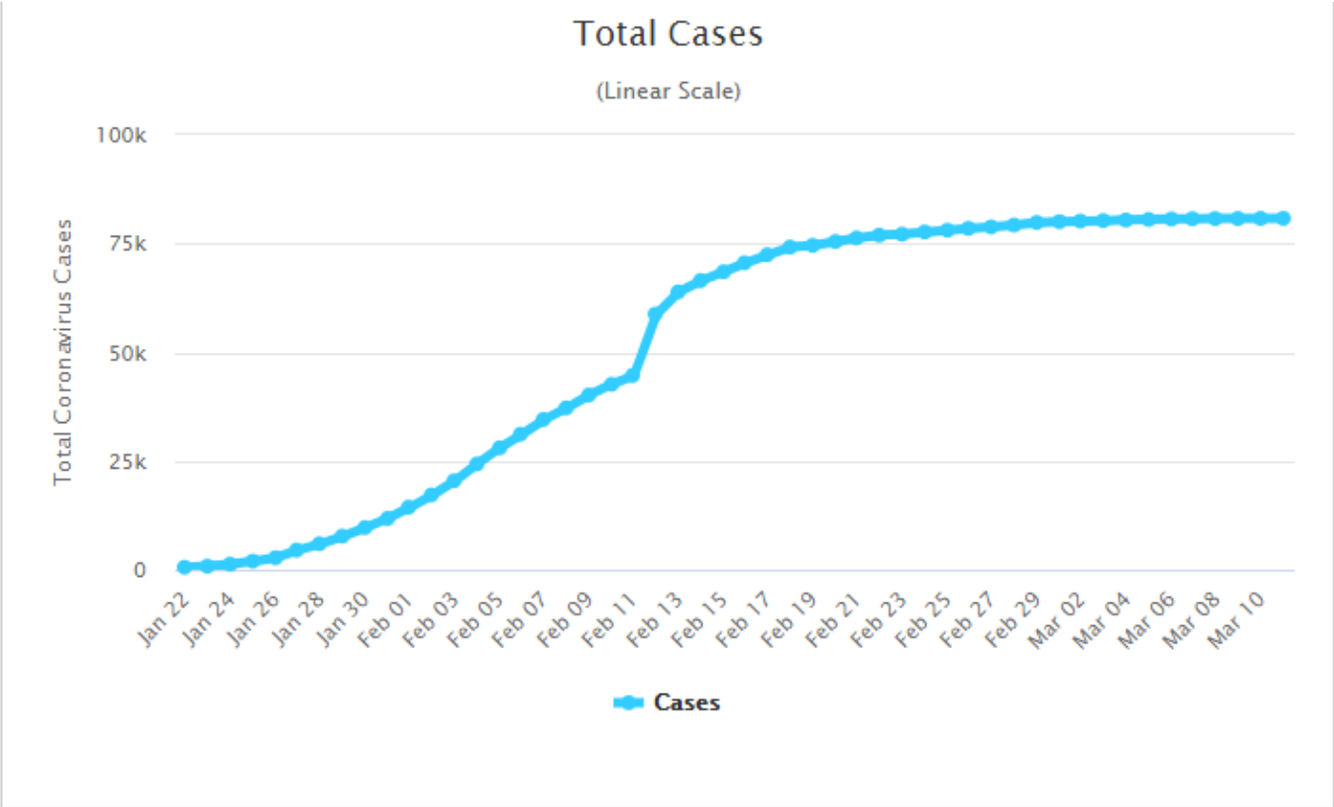
Perspective

Managing Community Spread

In the United States we're beginning to feel the impact of the Coronavirus, or COVID-19 and the efforts intended to contain it. Businesses and families alike are growing accustomed to cancellations and suspension of everyday activities. The primary goal of federal and state authorities will be to contain the spread of the virus. Global officials have learned that shutting down human interaction for a brief period appears to mitigate the spread of the virus. Assuming data out of China is accurate, new cases seem to have declined almost entirely.



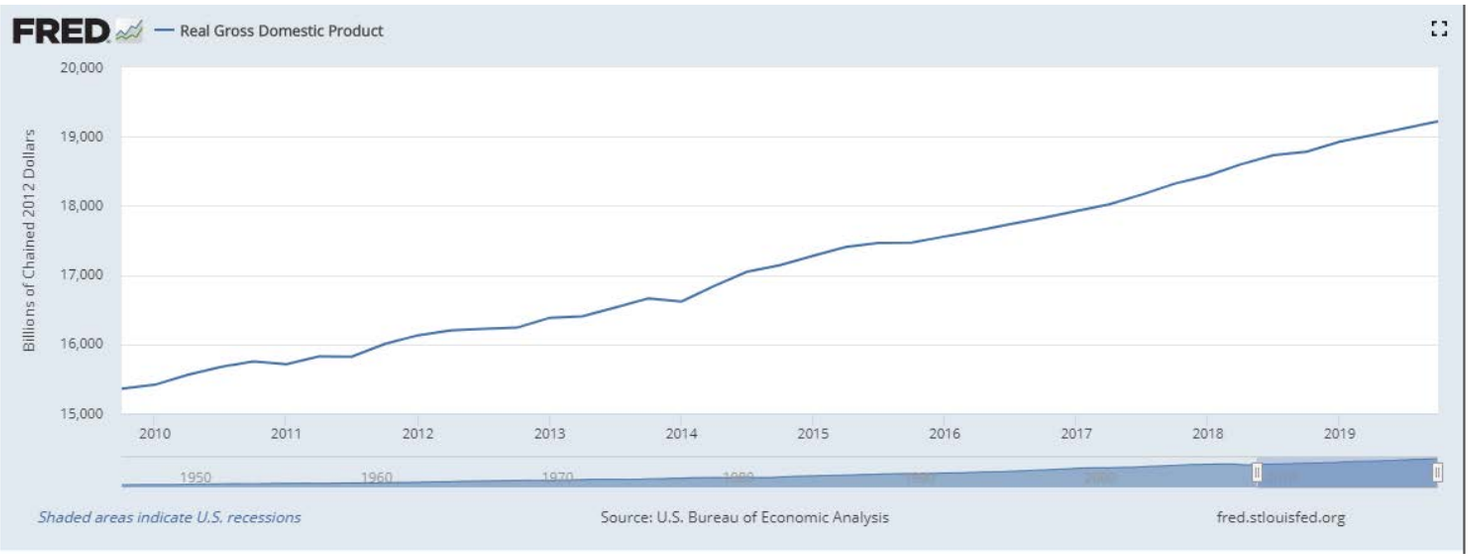
What Does This Mean for the Economy?

While it seems that economists are wrong as often as they are right, most concede that it is still too early to quantify the financial impact that COVID-19 will have on the U.S. economy, measured by Gross Domestic Product ("GDP"). We feel that there are two potential outcomes:

1.) An early (and in some cases, even panicked) response will lead to containment and allow most countries, including the U.S., to return to work, school, and regular consumer behavior in a matter of weeks or months. GDP will be flat or grow slightly and avoid recession over the next one to two quarters. In the second half of the year, the economy recovers and GDP expands.

2.) Poor global coordination of information and resources will result in a "too little too late" scenario resulting in a protracted downturn in the economy and ultimately lead to a recession and job loss.

Both hypothetical scenarios resolve themselves over time but would likely exhibit different durations and severities. The US economy entered the new year with a reasonable "head of steam" (as measured by GDP growth), and as such, will require a considerable downturn to slow momentum. Our base case is that the U.S. avoids an economic recession and stocks recover over the next 6-12 months. This is consistent with viral outbreaks and geo-political shocks that we have experienced historically.



Where is the Stock Market Now?

The heightened economic uncertainty has led to a dramatic increase in stock market volatility and a rapid sell-off in stocks. When the future is unknown, short-term investors price-in the worst case scenario. This sentiment has brought stocks to their lowest level since Christmas Eve 2018. A long-term investor might look at the chart below illustrating the S&P 500 over the last 10 years and view this recent decline as a buying opportunity, and we would agree. As of yesterday (Thursday), stocks were approximately 27% cheaper than they were just three weeks ago on February 18th.

How has Legacy responded?

Our Investment Committee manages portfolio risk by monitoring the level of stocks, bonds, cash and alternatives in your accounts. As they increase or decrease in value, there is an opportunity to re-balance this mix by buying what has decreased in value and selling what has increased in value. In addition, there may be tax advantages (and potential disadvantages) to these moves and we fully assess these for each of you individually before taking action. We use a technique called "tax loss selling" to offset gains and losses in your account and reduce/avoid taxable gains.

Given the significant sell-off in stocks, we have rebalanced most accounts early this afternoon. We targeted those with meaningful opportunity to return to the appropriate risk target and take advantage of losses in non-qualified accounts. Generally speaking, we sold bonds and purchased stocks near the closing low of the stock market on Thursday. Stocks may eventually (or suddenly) move lower than Thursday's close but we felt that the move today was warranted and opportunistic.

Keep things in perspective

To provide historical context, the table below illustrates how the stock market responded during other past growth scares and bear markets. It also shows the period of positive market performance in the 12 months that followed these crises.

Dates of S&P's biggest declines	Black Monday 8/25/87-12/4/87	Gulf War 7/16/90-10/11/90	Asia Monetary Crisis 7/17/98-8/31/98	Tech Bubble 3/27/00-10/9/02	Financial Crisis 10/9/07-3/9/09	US Credit Downgrade 3/10/11-10/3/11	Trade War 10/3/18-12/24/18
U.S. stocks	-33.5%	-19.9%	-19.3%	-49.0%	-56.8%	-19.0%	-19.6%
Next 12 months	+21.4%	+29.1%	+37.9%	+33.7%	+68.6%	+32.0%	+37.1%

Source: Morningstar as of 2/28/20. Returns are principal only not including dividends. U.S. stocks represented by the S&P 500 Index. Past performance does not guarantee or indicate future results. Index performance is for illustrative purposes only. You can't invest directly in an index..

One final note – many of you have called our office with questions. A common refrain has been "I know you must be really busy right now, so I didn't want to bug you… I just wanted to see what you thought, etc…". Please don't feel you're bugging us! These are the times when we're proudest of what we do and the support we can provide. We're glad to be by your side when times are toughest. Thank you for your trust!

Chris Proctor

Chief Investment Officer

*Recessions are defined by the National Bureau of Economic Research and are more commonly defined as 2 or more quarters of contracting Gross Domestic Product (GDP).

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