LEGACY
FINANCIAL STRATEGIES

Market Update

June 2020

Market Summary:

- The stock market is looking beyond the economic damage caused by the pandemic.
- Consumer behavior is being tracked to monitor the anticipated economic recovery.
- Timing the stock market has proven difficult. Some sophisticated investors have missed the rebound in stocks.
- Remaining invested and optimizing portfolios has been a prudent strategy.

A Tale of Two Markets:

The title of Charles Dickens' book, A Tale of Two Cities, came to mind recently when putting the stock market sell-off and ensuing recovery in perspective. Investor behavior went from fear to optimism seemingly overnight. The opening words of the book made me also think beyond the financial markets about how I and others (might) feel. "It was the best of times, it was the worst of times, it was the age of wisdom, it was the age of foolishness, it was the epoch of belief, it was the epoch of incredulity, it was the season of light, it was the season of darkness, it was the spring of hope, it was the winter of despair…"

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Perspective

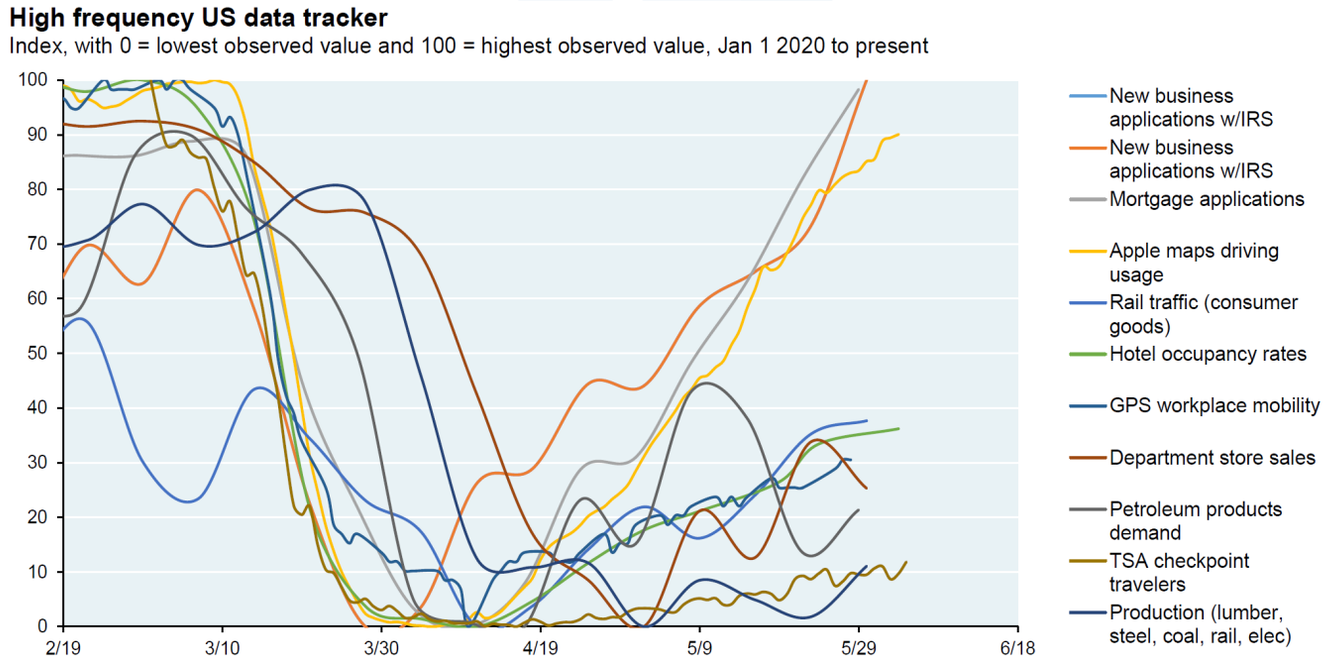
Portfolio values have been largely mended and the economy is expected to recover over time as businesses re-open and people return to work. While this positive development may feel like "the spring of hope," uncertainty surrounding COVID-19, social tensions, and the upcoming election cycle may also feel a little like the "winter of despair." The aforementioned concerns may change from day to day, but our investment oversight and process will remain constant.

Epoch of belief:

Why has the stock market rebounded when economic numbers look so bad? Put simply, the stock market and the economy are not the same thing. Economic data is backward looking and reflects the value and "health" of the overall economy as it was weeks or months ago. Stocks represent ownership in businesses. The stock market is forward-looking and its value is based on the expected future profits of these businesses. In February, stock prices fell weeks before any negative economic data was officially released as investors believed that future corporate profits would be negatively impacted by shutting down the economy. Conversely, stock prices began to recover in advance of any actual positive economic data as investors anticipated a recovery in future corporate profits due to the re-opening of businesses. *In a recent report, Schwab and Ned Davis Research showed that historically, stocks outperform their long-term return average of 10% when Unemployment is high, GDP is low and expected corporate earnings growth is low.*

Uptick in activity:

Consumer behavior is being tracked by data points including Apple Maps, TSA screenings at airports, hotel occupancy, and restaurant bookings. In-person debit and credit card purchases are also being tracked by one major bank to determine if people are going into stores or ordering online. The uptick in activity has been positive for investor confidence helping to drive stock prices higher.



Source: WWPA, EIA, AISI, EEI, AAR, Redbook, Census Bureau, TSA.gov, Apple, Smith Travel, MBA, Google, AirDNA, JPMAM. June 05, 2020.

Perspective

Patient perseverance:

In our March commentary, we shared the following chart of stock market downturns from past events and recoveries 12 months later. I thought it would serve as a good reference to illustrate again that stocks can make strong recoveries quickly and that it is prudent to stay invested and keep allocations consistent with your risk tolerance and long-term investment plan. Timing the market can be difficult for many reasons, the least of which being that market recoveries can happen precisely when investors are most fearful.

Keep things in perspective

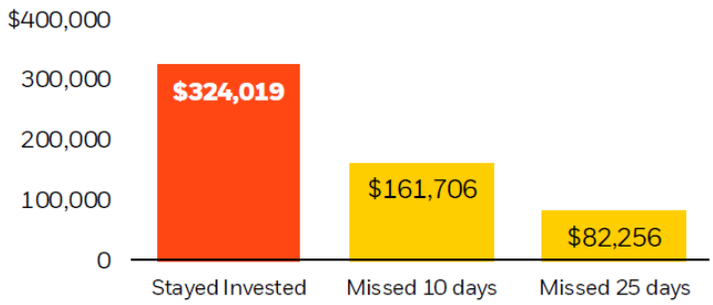
To provide historical context, the table below illustrates how the stock market responded during other past growth scares and bear markets. It also shows the period of positive market performance in the 12 months that followed these crises.

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..

Stay invested

The chart below shows how a hypothetical $100,000 investment in stocks would have been affected by missing the market's top-performing days over the 20-year period from January 1, 2000 to December 31, 2019. An individual who remained invested for the entire period would have accumulated $324,019, while an investor who missed ten of the top-performing days during that period would have accumulated $161,706.



Over the last 20 years, 24 of the 25 worst trading days were within **one month** of the 25 **best** trading days[1]

Sources: BlackRock; Bloomberg, Morningstar as of 2/28/20. U.S. stocks are represented by the S&P 500 Index, an unmanaged index that is generally considered representative of the U.S. stock market. Index performance is for illustrative purposes only. It is not possible to invest directly in an index. [1]Only period without a corresponding best day within one month was September 17, 2001. Past performance does not guarantee or indicate future results.

The chart below illustrates how unusually brisk the current market recovery has occurred. Note how long it has taken some memorable downturns to reach bottom from the previous peak (Duration) and then recover those losses (Recovery Duration). The 2020 Coronavirus Pandemic is not yet concluded, but at the time of this writing, the S&P 500 stock index is within 5% of the all-time closing high reached on February 19, 2020. We are 0.2 years into the recovery duration since the March 23, 2020 market bottom (assuming that is the low).

The fastest bear market ever

The response to COVID-19 was the sharpest in U.S. stock market history.

Recession	Peak to bottom drop	Duration	Recovery duration
2020 Coronavirus Pandemic (in progress)	-34%	0.1 Yrs	
2018 Global Stock Market Downturn	-20%	0.3 Yrs	0.3 Yrs
2008 Great Recession	-57%	1.4 Yrs	4.1 Yrs
2000 Dot-Com Bubble	-49%	2.5 Yrs	4.6 Yrs
Early 1990s Recession	-20%	0.2 Yrs	0.3 Yrs
1987 Black Monday	-34%	0.3 Yrs	1.6 Yrs
1981–1982 Recession	-20%	1.0 Yrs	0.2 Yrs
1973 Oil Crisis	-48%	1.7 Yrs	5.8 Yrs
1962 Kennedy Slide	-20%	0.5 Yrs	1.2 Yrs
1929 Great Depression	-86%	2.7 Yrs	22.3 Yrs

Sources: Charles Schwab Investment Management; S&P Dow Jones Indices; National Bureau of Economic Research; Yahoo Finance. S&P 500 market return at the bottom is as of the pre-recession market peak and recovery back to peak.
Past performance is no guarantee of future results. Indexes are unmanaged, and do not incur fees, and it is not possible to invest directly in an index.

Closing thoughts:

The economic impact of COVID-19 has proven to be unprecedented and I suppose that Mr. Dickens could add "it was the most unusual of times" to his text if written today. His opening words portrayed feelings of both optimism and despair. If given the choice, I would choose optimism and bet on America. The swift recovery took even sophisticated investors by surprise and reinforced the notion that outthinking the market is an exercise in futility, especially in times of uncertainty. It was also a reminder to focus on what you can control. While quarantined in our homes, we were busy optimizing client accounts through tax-loss selling, adjusting risk, rebalancing stocks and bonds, replacing portfolio holdings, investing cash in the market, updating financial plans and in some cases, maintaining status quo. Financial and economic uncertainty can create stress and confusion. A sound long-term investment and financial plan remains our prudent guide. We are happy to be in it with you for the long haul.

Thank you for your trust!

Chris Proctor
Chief Investment Officer

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