HUGHES | FINANCIAL SERVICES, LLC

KEY TAKEAWAYS

- Market volatility can be uncomfortable, but it is a normal part of the investment experience
- Beware of media magnification
- Avoid making emotionally driven decisions
- Focus on your personal goals and objectives
- Reach out to us before making any changes

Putting the Panic Into Perspective: Markets Go Up, Markets Go Down

The last few days of February created confusing and turbulent times for investors. The rough stock market fluctuations created a rollercoaster-type of ride that has attracted the attention of almost every media outlet. During this time period, the S&P 500 had its worst day since 2011, as it presented a historic streak of negative moves. Let's briefly recap some key points from the last few months.

After strong equity returns in 2019, equity markets moved up another 5% by mid-February to reach all-time highs. Then, with news that the spread of the Coronavirus outside of China was growing to global proportions, equity assets started to sell off.

On Monday, February 24, the S&P 500 declined over 3%. The following day, the S&P 500 shed another 3%. Consecutive down days of this magnitude are rare. After a mild down day on Wednesday, the markets were again shaken with a -4.4% return for the S&P 500 on Thursday, February 27, making this "correction" (a downward movement of 10% or more) even more notable and potentially historic given the rapidity of the sell-off.

Investors should always be aware of market swings and movements, remembering that equity market pullbacks and corrections are a normal part of investing. Historically, pullbacks (a 5% downward movement) happen about three times a year and market corrections approximately once a year. However, this has not been the case in recent years – after the last major correction in December of 2018, we've only seen limited and low volatility in the market. Thus, many investors were not prepared for these large and rapid declines. While this may not be the end of the equity markets fall, it might be helpful to put these media-grabbing events into perspective.

In a dataset going back 92 years to 1928, returns of -4% or worse for the S&P 500 have only occurred 146 times. Days where equity markets decline 4% or more are rare, and they tend to cluster in economic recessions.

Added together, the volatile days of Monday the 24th, Tuesday the 25th and Thursday the 27th provided a historic ride for investors with the S&P 500 shedding 10.7% over four trading sessions. While downward drops like this are typically unwelcome and unexpected, they are not unprecedented. Historical knowledge can be helpful when analyzing your own situation so let's review some facts.

Dating back to World War II, there were six historical periods that were worse than the one we just experienced. They include:

- During the start of the 2008 financial crisis, there was a four-day sell-off of over 17% that ended October 9, 2008.
- During an already unstable time due to the tech bubble deflation and post-9/11 uncertainty, the announcement of major accounting errors at Worldcom pushed the market to decline 11.96% over a four-day period in July 2002.
- In August 1998, global assets declined 12.41% in response to the prospect of a Russian debt default.
- The historic October 1987 market sell-off in which the market dropped 28.5%.
- The Kennedy Slide (or Flash Crash) of 1962 in which the market dropped 10.97%.
- And, going way back to May 1940, the market experienced a drop of 15.1% as the world watched Germany used their blitzkrieg against France.

No matter how you look at it, the "Coronavirus 2020 Decline" will be remembered as a historic market drawdown.

Equity Markets and the Coronavirus

While the economic impact of the Coronavirus is still fluid, history shows that equity markets regained their strength quickly after other health crises occurred. For example, six months after the Avian Flu in June 2006, the S&P 500 was up 11.66% and after 12 months, up 18.36%.

According to Seema Shah, Chief Strategist at Principal Global Investors, "Risk velocity – the pace at which major risks and 'black swan' events can affect asset prices – is elevated in today's markets compared to 10 years ago for three key reasons." These three reasons are:

- Social media-driven news cycle
- Interconnectedness of global supply chains
- Pricey stock market

Epidemic	Month end	6-month % change of S&P	12-month % change of S&P
HIV/AIDS	June 1981	-0.3	-16.5
Pneumonic plague	September 1994	8.2	26.3
SARS	April 2003	14.59	20.76
Avian flu	June 2006	11.66	18.36
Dengue Fever	September 2006	6.36	14.29
Swine flu	April 2009	18.72	35.96
Cholera	November 2010	13.95	5.63
MERS	May 2013	10.74	17.96
Ebola	March 2014	5.34	10.44
Measles/Rubeola	December 2014	0.20	-0.73
Zika	January 2016	12.03	17.45
Measles/Rubeola	June 2019	9.82%	N/A
			—Source: Dow Jones Market Data

www.marketwatch.com

We cannot stress this enough: don't let the media cause you to make irrational or rash decisions. It's very hard to take all the information the media outlets push at us with a grain of salt. With thousands of media outlets all thirsty for viewers and clicks, some will and have resorted to scare and fear tactics to attract an audience.

Volatility is a normal part of the investment experience, but the wall-to-wall media coverage won't focus on this fact. However, we understand that when the markets are fluctuating, it can be difficult to make rational investment decisions or resist the temptation to watch and/or read the constant news reports and obsessively watch your portfolio performance.

Too often, emotion, not logic, can overshadow good investing habits. So, the first step in declaring mental independence is realizing how these influences, known as biases, affect us. Sometimes, the closer you put a short-term lens to your investments, the more likely you will be to consider decisions that deviate from your long-term strategy. While it's wise to remain vigilant, a strong financial plan allows you to adhere to the long-term investment plan you have created.

In Addition to the Coronavirus …

10-Year Treasury Yield: The 10-Year Treasury Yield recently hit an all-time record low, reaching down to just over .5%.

Interest Rates: As investors worry about the potential economic impact of the Coronavirus, the Federal Reserve told financial markets they are paying attention. Fed Chairman Jerome Powell released a statement Friday, February 28, promising to, "act as appropriate," should the Coronavirus situation escalate. Fed officials do not believe that monetary policy changes would make a difference in the current scenario's primary need of slowing the spread of the disease and opening global supply chains.

On March 3rd, Powell said the Coronavirus outbreak had increased risks to the U.S. economic outlook and as a result, had the central bank make an emergency half-percentage point interest rate cut to a new range of 1 to 1.25%. The U.S. is not the only country to take steps to provide liquidity in efforts to stabilize their financial markets. On the same day the Fed reduced rates, central banks in Australia and Malaysia cut rates. The Bank of Japan issued its own statement Monday, March 2nd saying that it too will, "closely monitor future developments, and will strive to provide ample liquidity and ensure stability in financial markets through appropriate market operations and asset purchases."

Political Arena: With 2020 being an election year, this can make some investors cautious of potential changes in political parties, policy changes, including tax law changes, and financial environment uncertainty. While historically, only four of the last 23 election years saw the S&P 500 go negative, it's always best to remember that past results do not guarantee future performance!

What should an investor do in a volatile market?

First, make sure you know what not to do – and that is don't panic. In times of market volatility, investors tend to become unnerved and anxious. While understandable, this is not the best mindset with which to make rational decisions.

We want to emphasize that your financial plan incorporates your goals and is crafted based on a number of factors, including your risk preferences and time horizon. It serves as a roadmap to your financial goals, incorporating the inevitable market declines and keeping you from making rash decisions when markets turn volatile.

No one knows for sure how far the Coronavirus will spread and OUR when it will be contained. We also do not know when equity prices will stop retreating, but we do understand that equity investors need to incorporate patience into their strategies. When equity markets experience volatility that's unsettling, we suggest you ask yourself three questions:

- Have my financial timelines changed?
- Have my financial goals changed?
- Has my risk tolerance changed?

If you answered "YES" to any of these questions, we strongly suggest you reach out to us so we can discuss these changes.

If you have concerns, questions you may want to ask include:

- Can we review my financial plan?
- Can we revisit my risk tolerance?
- Are my investments diversified?
- What are my fixed income investments?
- Has the recent volatility presented any good opportunities?

FOCUS ON YOUR GOALS

- **Check your comfort level with your time horizons**
- **Reassess your risk tolerance**
- **Reconfirm your investments are compatible with both your time horizon and risk tolerance**
- **Maintain liquidity for all short-term and near-term needs**

OUR PRIMARY OBJECTIVE:

To maintain an understanding of our clients' goals and to match those goals with the best possible solutions and strategies

Consider Hughes Financial Services your financial doctor! Just like your medical doctor needs to know if there have been any changes to your physical health, we need to know if anything has changed for you so we can be best equipped to make updates or changes to your financial plan as necessary.

Regardless of whether equities are rising or falling, investors should always maintain focus on their own personal objectives. Our current economic environment, political uncertainty, interest rate concerns, and the newest variable, the Coronavirus, all offer a valuable opportunity to revisit your financial plan to make sure it is still aligned with achieving your objectives and goals.

Remember, for at least the next few weeks, please try to avoid making any emotional decisions based on what you hear or read about in the media. Remember that a well-crafted investment plan tailored to your goals incorporates the inevitable pullbacks in the market. Investing comes with risk, but risk can be managed through diversification. You don't want all your eggs in one basket.

Our advice is not one-size-fits-all. We always consider your feelings about risk and the markets and review your unique financial situation when making recommendations. If you would like to revisit your specific holdings or risk tolerance, please reach out to us.

At Hughes Financial Services, we are proud to provide our clients with:

- consistent and strong educational communications
- a schedule of regular client meetings
- continuing education for every member of our team on the issues that affect our clients

A skilled financial advisor can help make your journey easier. If you have additional questions, we'd be happy to get you pointed in the right direction. Just ask. That's what we're here for.

Sources: Wall Street Journal; Seekingalpha.com (2/28/20); CNBC (3/2/20); MarketWatch (2/24/20); Yahoofinance.com; TheBalance.com (11/7/19); Reuters.com (3/3/20). Contents provided by the Academy of Preferred Financial Advisors, Inc. ©