Quarterly Market Review: 2020-Q1

For ClearLogic Financial

Equity markets around the globe posted negative returns in the first quarter. Looking at broad market indices, US equities outperformed non-US developed markets and emerging markets. Value stocks underperformed growth stocks in all regions. Small caps also underperformed large caps in all regions. REIT indices underperformed equity market indices in both the US and non-US developed markets.

The first chart is a snapshot of the market performance for the first quarter. The second chart shows the world markets and events during the first quarter of 2020. Your 2020 first quarter portfolio review report is posted in the ModestSpark portal.

	US Stock Market	International Developed Stocks	Emerging Markets Stocks	Global Real Estate	US Bond Market	Global Bond Market ex US
1Q 2020	STOCKS				BONDS	
	-20.90%	-23.26%	-23.60%	-29.02%	3.15%	0.51%
Since Jan. 2001						
Avg. Quarterly Return	1.8%	1.2%	2.5%	2.2%	1.2%	1.1%
Best Quarter	16.8% 2009 Q2	25.9% 2009 Q2	34.7% 2009 Q2	32.3% 2009 Q3	4.6% 2001 Q3	4.6% 2008 Q4
Worst Quarter	-22.8% 2008 Q4	-23.3% 2020 Q1	-27.6% 2008 Q4	-36.1% 2008 Q4	-3.0% 2016 Q4	-2.7% 2015 Q2

Past performance is not a guarantee of future results. Indices are not available for direct investment. Index performance does not reflect the expenses associated with the management of an actual portfolio. Market segment (index representation) as follows: US Stock Market (Russell 3000 Index), International Developed Stocks (MSCI World ex USA Index [net div.]), Emerging Markets (MSCI Emerging Markets Index [net div.]), Global Real Estate (S&P Global REIT Index [net div.]), US Bond Market (Bloomberg Barclays US Aggregate Bond Index), and Global Bond Market ex US (Bloomberg Barclays Global Aggregate ex-USD Bond Index [hedged to USD]). S&P data © 2020 S&P Dow Jones Indices LLC, a division of S&P Global. All rights reserved. Frank Russell Company is the source and owner of the trademarks, service marks, and copyrights related to the Russell Indexes. MSCI data © MSCI 2020, all rights reserved. Bloomberg Barclays data provided by Bloomberg.

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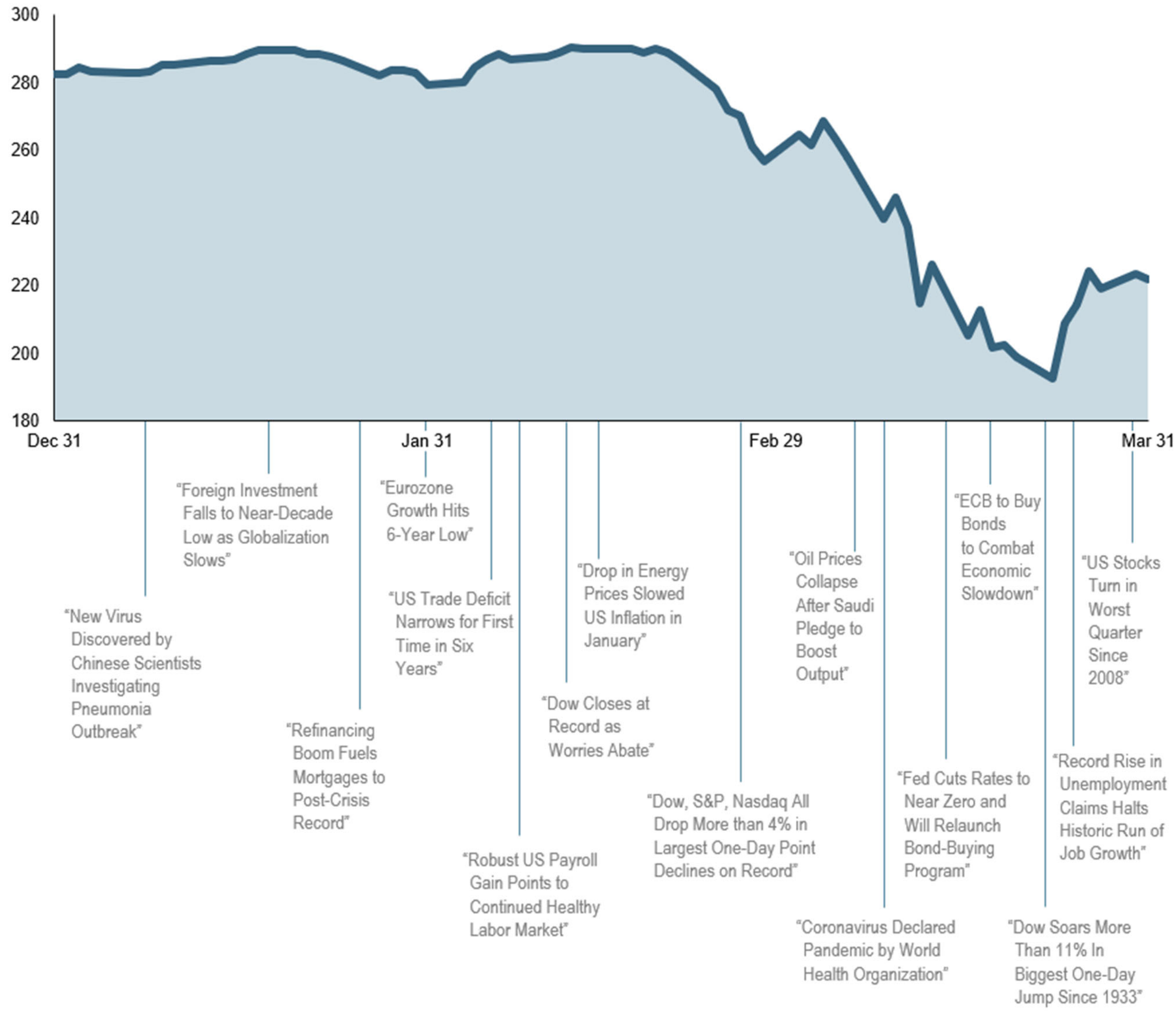
Past performance may not be indicative of future results. Indices are not available for direct investment. Any investor who attempts to mimic the performance of an index would incur fees and expenses which would reduce returns.

All investing involves risk, including the potential for loss of principal. There is no guarantee that any investment plan or strategy will be successful.

World Stock Market Performance

MSCI All Country World Index with selected headlines from Q1 2020



These headlines are not offered to explain market returns. Instead, they serve as a reminder that investors should view daily events from a long-term perspective and avoid making investment decisions based solely on the news.

Graph Source: MSCI ACWI Index [net div.]. MSCI data © MSCI 2020, all rights reserved.
It is not possible to invest directly in an index. Performance does not reflect the expenses associated with management of an actual portfolio. Past performance is not a guarantee of future results.

The Coronavirus and Market Declines

The world is watching with concern the spread of the new coronavirus. The uncertainty is being felt around the globe, and it is unsettling on a human level as well as from the perspective of how markets respond.

The market is clearly responding to new information as it becomes known, but the market is pricing in unknowns, too. As risk increases during a time of heightened uncertainty, so do the returns investors demand for bearing that risk, which pushes prices lower. Our investing approach is based on the principle that prices are set to deliver positive future expected returns for holding risky assets.

We can't tell you when things will turn or by how much, but our expectation is that bearing today's risk will be compensated with positive expected returns. That's been a lesson of past health crises, such as the Ebola and swine-flu outbreaks earlier this century, and of market disruptions, such as the global financial crisis of 2008–2009. Additionally, history has shown no reliable way to identify a market peak or bottom. Historical research and statistics argue against making major portfolio adjustments based on fear or speculation, even as difficult and traumatic events transpire.

Control What you Can

In perilous times it can feel like we have lost control in our financial and personal lives. There is no doubt that everyone feels a little uneasy right now. Often the best anecdote is to separate matters we can control from those we cannot. There are many financial planning opportunities that have emerged as a result of the current pandemic. Focusing on these opportunities may boost investors chances of meeting their long-term financial objectives. These include:

Rebalancing

With global equity stock markets in steep decline relative to bonds, our approach to portfolio management has been signaling that rebalancing is warranted for most of our clients. We have created target allocation models across different equity and fixed income asset classes according to individual client financial objectives, time horizon and risk preference. We suggest that clients rebalance as needed in order to maintain that allocation. Sometimes this means selling bonds to buy equities (like now). Other times, it means selling stocks to buy bonds (as in late 2019). The primary benefit of rebalancing is to minimize future volatility while still achieving an expected return in line with the target allocation.

Tax Loss Harvesting

If you have a taxable account with unrealized losses in a particular security, you can sell that fund and "swap" into a similar fund in the same asset class. Tax swapping generates realized losses that can be used to offset future capital gains. Unused tax losses can be carried into future tax years and up to $3,000 of tax losses can be used to offset taxable income every year. This can provide peace of mind that you are likely boosting your long-term overall after-tax returns and should be considered a "silver lining" in a sharp downturn.

Investing Excess Cash

Investors often hesitate to invest excess cash when markets are volatile and therefore remain underinvested when markets are on the upswing and when they are in decline. When markets are rising, they fear “investing at the top”. When they are falling, they fear further declines. For those investors with a time frame of five years or more, we believe the best time to be invested in the stock market is now. Investors should not be reluctant to invest cash balances that exceed their desired emergency fund target based on recent market trends.

Refinancing

With interest rates at historic lows, refinancing homes and cars has increased significantly. Because of the increase in applications, you may find that interest rates for refinancing have periodically gone up a little over the last few weeks. However, this is an area worth watching since 30-year rates have dropped to as low as 3.25% at times recently. If you have a home mortgage, HELOC, or car loan, it is important to look at a few potential sources, including your own bank, your current mortgage holder, and a credit union such as Pentagon Federal, Northwest Federal or Navy Federal. Many of the credit unions now have less restrictions on membership than in the past.

There are a number of factors to consider in addition to the rate itself. These factors include:

- How long you intend to stay in your home or keep your car?
- How many years do you have left on your mortgage or loan?
- What are the closing costs in total, not just the points involved in the rate you choose?
- What is the reputation of the lender and do they resell mortgages?

If this is something that you might like to consider, we are happy to review the options with you.