CORE WEALTH MANAGEMENT

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COVID-19 Market Selloff Q&A

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Global markets closed on Monday approximately 30% off of the highs reached just one month ago. The sell-off has been dramatic and breathtakingly swift.

We have been getting some great questions from clients, so we thought we might share some of them along with our thoughts in the following Q&A. We hope you find it useful.

1. *What is happening in the stock market? What do all of these falling prices mean?*

   There are two primary factors that drive stock prices: expectations regarding future corporate earnings and uncertainty. When expected earnings decline, stocks will fall. When there is greater uncertainty about those earnings, stocks will fall. When you have both a decline in expected earnings AND greater uncertainty, stocks will fall *a lot*.

   That is what is happening now. The effort to stop the spread of the COVID-19 is causing a severe reduction in economic activity. People are staying at home, businesses are temporarily closing, service workers are being laid off, and much of the traditional economy is grinding to a halt. As a result, corporate earnings expectations are much lower now than they were two months ago, and to make matters worse, there is tremendous uncertainty about what those earnings will look like in the years to come.

2. *We've never seen anything like this before. Is this time different?*

   This time is different because things are always changing. The sequence of events that we have experienced over the last month has been unlike anything most of us have ever seen in our lifetimes. And while declines of this magnitude are historically common, it has been more than a decade since the last bear market, and this decline has been unusually abrupt.

   But one thing that has not changed is the way that markets work. Information is constantly coming at us, perhaps faster than ever, and this information is being incorporated into stock prices immediately. And when there is positive news, stocks will respond accordingly.

   So while the underlying cause of this particular market decline is different, the markets are responding as we would expect.

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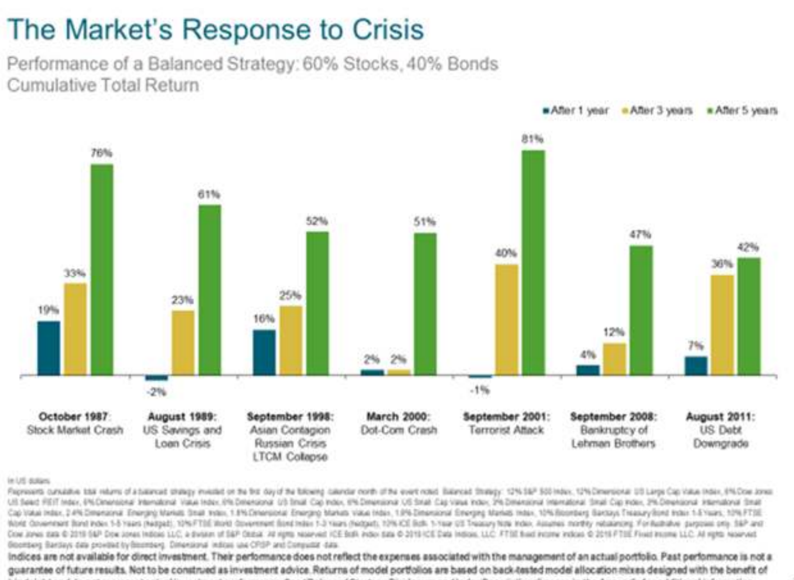
3. *Why should we stay invested?*

First, we should revisit the reason we invest in stocks in the first place. The reason we invest in stocks is because stocks offer positive expected return above what we can expect to earn in a treasury bond or a bank account. That extra return is the compensation we receive for being willing to assume the risks of investing in stocks. It's this extra return that allows us to build a nest egg for a fulfilling retirement, send our children and grandchildren to college, and leave a legacy that lasts far beyond our lifetime.

It's tempting to want the risks of owning stocks to magically go away. But if the risks go away, that extra return would also go away.

Second, while selling now and waiting for things to settle down may seem like a sensible thing to do, it's not a sound investment strategy. It will likely have the effect of turning a temporary decline into a permanent loss. Stock prices are forward looking and adjust in advance of what may happen. That is why it's not unusual for stock prices to recover long before the economic recovery.

And lastly, investors who are willing to stay invested should expect to be compensated for doing so. Historically, we know that stocks have produced above average returns over the 1, 3 and 5 year periods following a stock market drop of 20% or more.



4. *How far does the market have to fall before it's time to get out and protect what we have?*

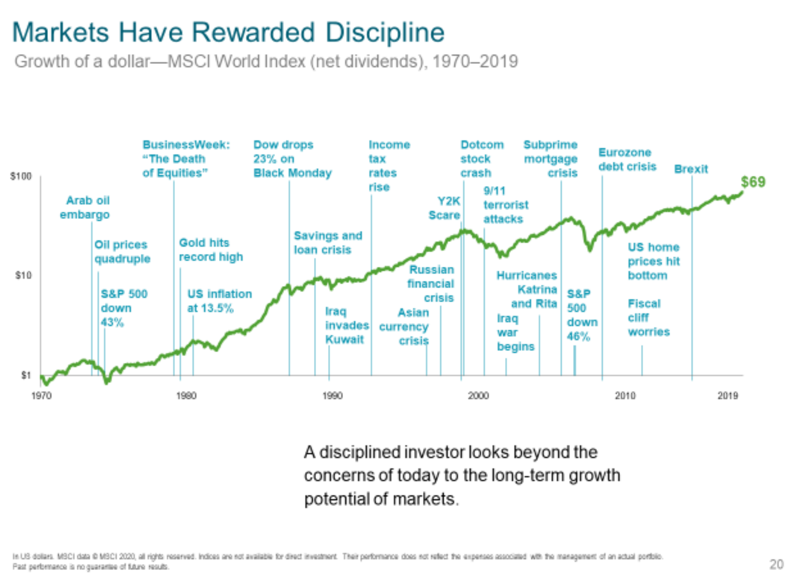
   Whether you are retired, you are approaching retirement, or you are in your peak earning years, our advice is the same – stick with your plan and stay invested. We planned for this. And if at some point an adjustment needs to be made to your plan, we will advise accordingly.

   One thing we do carefully consider in this environment is the decision to rebalance into stocks (buy stocks by selling bonds), especially for anyone in or close to retirement. Before doing so, we will examine the dollar value of your fixed income allocation relative to your cash flow needs for the foreseeable future. If necessary, we will err on the side of not rebalancing until markets return to some sense of normalcy. In the meantime, we will purchase shares through dividend reinvestment.

5. *How do we focus on the long-term when the short-term damage seems insurmountable?*

   What is important to remember is that paper profits and losses are just that – they are not permanent until you sell. It's a sound plan that combines a reasonable withdrawal rate with diversification into safer fixed income that allows us to weather downturns and avoid turning temporary declines into permanent losses. None of that has changed, even though the value reflected on your statements has.

   There have been many panics and crises over the decades accompanied by market declines that felt like they would never end. But nevertheless, markets have rewarded investors over the long-term.



6. *Was it a mistake to buy stocks two months ago?*

   Regret is a normal feeling when faced with stock market losses. There is a natural inclination to think that we should have seen it coming. But let's be perfectly clear: there was no way to see this event coming. Stocks prices were fair two months ago based on what we knew then, and they are fair now given what we know now.

   However, we as investors should always prepare for the possibility that things like this could happen. This is why we plan and this is why we diversify.

7. *What should we do now?*

   Most of the work done to prepare for a bear market needs to be done before it shows up. And if you are our client, we hope you take some comfort in knowing that we have done this. But understandably, we all may feel the urge to do something. So here are a few things you might want to do.

   - If you are in or near retirement, get a handle on how many years' worth of withdrawals you have invested in fixed income investments. Chances are that your fixed income allocation represents several years' worth of your required annual withdrawals. This should provide some comfort that you will not be forced to sell stocks that have declined in value just to fund your retirement. Call us and we can help you through this calculation.

   - If you are younger and are saving for retirement, don't get hung up on trying to time the dips or buy at the bottom. Instead, re-commit to a systematic investing plan regardless of what's going on, which many of you are doing through your company sponsored retirement plans. Also, take this opportunity to revisit your emergency fund needs. If you are having the feeling that it's not enough, commit to a plan to get it where it needs to be.

   - Mentally and emotionally plan for things to get worse before they get better. The market may decline more, and the headlines may get worse. At the same time, don't lose sight of the possibility that the worst-case scenario may not show up, and if it does, that we may be able to handle it better than anyone anticipates.

   - Call us if you are feeling fearful or just want to talk it out. That is what we are here for.

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- And finally, have faith that things will get better. Faith that humans will adapt, entrepreneurs will innovate, problems will be solved, and companies will work tirelessly to provide goods and services that people need and want. Through this process, the economy will ultimately rebound, markets will rise, and humans will flourish. Capitalism and the markets have survived wars and banking crises and natural disasters before, and it will certainly survive this event.

  Scott Adams of Dilbert fame has the following quote pinned to the top of his twitter feed:

  > *"In the next two weeks we will witness a breathtaking degree of human ingenuity. It's starting to bubble up now. The most capable among us are now fully engaged. That virus doesn't know what's coming for it."*

  We suspect he may be right.

Thank you for reading, and if you have any questions, please contact us and we would be happy to answer them.

In the meantime, we wish everyone the best as we all learn to deal with uncertainty of the COVID-19 virus and the impact of the efforts to combat its spread. But most of all, we hope that you and your family stay safe and healthy. Take care.

Core Wealth Management is a fee-only wealth management firm located in Jupiter, FL. Our CFP® professionals provide investment management, financial planning and advisory services, while always strictly abiding by the highest fiduciary standards. For more information, contact us today at 561-491-0231.