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Market and Allocation Update

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Good afternoon everyone,

I hope this email finds everyone doing well and (most relevantly) healthy! As you could probably guess, this update is regarding the Covid-19 pandemic and the market impact. It's not shocking, considering the only thing higher than the fear of the coronavirus pandemic these days is the demand for toilet paper. I don't make this comment to make fun of the situation, but rather to highlight something important regarding typical investor behavior… more to come on that.

The market has seen an extreme selloff due to the COVID-19 pandemic. What we are witnessing is a "black swan event", which is "an unpredictable event that is beyond what is normally expected of a situation and has potentially severe consequences." **Black swan events** are characterized by their extreme rarity, their severe impact, and the widespread insistence they were obvious in hindsight. These are the types of events that most of our portfolios are designed to protect against, and many of them are performing very well given the historic downturn in the markets.

As many of you are aware, our Right Trend risk trigger went off on ***2/28/20***, which sent the Right Trend models and various other strategies using that trigger into a defensive allocation. This has allowed us to avoid much of this volatility. That defensive allocation consists of FIXD (58.2%), FFEB (19.4%), DFEB (19.4%) and Cash (3%). This allocation was selected for a number of reasons, but most importantly if the market rebounds, this allocation gives us an opportunity to participate in the early gains that these models have historically missed while providing a reasonable amount of protection on the downside.

Attached is a video from Chief Economist at First Trust, Brian Wesbury. He points out a couple of key points in this video which reinforce the current positioning of the portfolio. Most importantly, when this event begins to pass (which he states has always occurred in these situations in the past) the market will more than likely have begun to make a move that most investors will miss. That is the purpose of the enhanced defensive allocation. While some of these positions may show some pricing movement during this volatility, the market will need to be lower than -10 and -25 percent lower one year from March 2 for losses to be realized in these positions. That is the entire purpose of the buffer, protect against some of the downside and participate in some of the upside.

Now, back to the COVID-19 and investor behavior. The question I have, along with many other investors… why the run on toilet paper? I was speaking to someone who recently made a toilet paper purchase. He stated that he felt the need to buy some toilet paper because he saw

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someone buying a bunch of toilet paper and supply looked low even though he thought he had plenty. This is typical herd behavior and this is what DALBAR constantly tries to illustrate with their annual study.

	Average Equity Fund Investor (%)	Average Fixed Income Fund Investor (%)	Average Asset Allocation Fund Investor (%)	S&P 500 (%)	Bloomberg-Barclays Aggregate Bond Index (%)	Inflation (%)
30 Year	4.09%	0.26%	1.79%	9.97%	6.10%	2.49%
20 Year	3.88%	0.22%	1.87%	5.62%	4.55%	2.17%
10 Year	9.66%	0.70%	4.53%	13.12%	3.48%	1.82%
5 Year	3.96%	-0.40%	1.50%	8.49%	2.52%	1.56%
3 Year	5.58%	-0.11%	1.84%	9.26%	2.06%	2.04%
12 Month	-9.42%	-2.84%	-6.97%	-4.38%	0.01%	1.93%

The above chart shows the typical investor performance from the 2019 annual study (Click HERE for a copy). As you will see, period after period they underperform… Why is that? There are a number of reasons, including recency bias and availability bias which are highlighted starting on page 5 of the 2019 DALBAR report.

I would encourage everyone to review this report as there is invaluable information relating to investor behavior. Remember, you have all put plans in place for your clients, and some of those plans are more than likely being put to the test at this moment. If possible, stay the course because, based on historical data in the long-term, your clients will thank you.

On that note, I'm going to end with a few charts providing some long-term perspective (and no, it is not toilet paper supply). But it does show major S&P 500 activity in the 250 days (1 Yr) after a decline. As always, if you have any questions please feel free to reach out at anytime.

Major S&P Declines WITH Recession - 1950 to present

Start Date	End Date	% Decline	Recession	Worst GDP Quarter	+ 250 Days
Feb 19, 2020	**Ongoing**	-27.00%	?	?	?
Oct 9, 2007	**Mar 9, 2009**	-56.80%	Yes	-8.40%	68.30%

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Major S&P Declines WITH Recession - 1950 to present

Start Date	End Date	% Decline	Recession	Worst GDP Quarter	+ 250 Days
Mar 24, 2000	**Oct 9, 2002**	-49.10%	Yes	-1.70%	33.80%
Jul 16, 1990	**Oct 11, 1990**	-19.90%	Yes	-3.60%	28.80%
Nov 30, 1981	**Aug 12, 1982**	-18.90%	Yes	-6.10%	55.40%
Feb 13, 1980	**Mar 27, 1980**	-17.10%	Yes	-8.00%	39.60%
Jul 15, 1975	**Sep 16, 1975**	-14.10%	Yes	-4.80%	27.50%
Nov 7, 1974	**Dec 6, 1974**	-13.60%	Yes	-4.80%	34.70%
Oct 12, 1973	**Oct 3, 1974**	-44.10%	Yes	-4.80%	34.70%
Nov 29, 1968	**May 26, 1970**	-36.10%	Yes	-4.20%	46.20%
Aug 3, 1959	**Oct 25, 1960**	-13.90%	Yes	-5.00%	30.00%
Jul 15, 1957	**Oct 22, 1957**	-20.70%	Yes	-10.00%	32.00%
Jan 5, 1953	**Sep 14, 1953**	-14.80%	Yes	-5.90%	37.70%
	Averages:	***-26.62%***			***39.06%***

Major S&P Declines WITHOUT Recession - 1950 to present

Start Date	End Date	% Decline	Recession	Worst GDP Quarter	+ 250 Days
Sep 20, 2018	**12/24/2018**	-19.80%	No	1.10%	37.00%
May 20, 2015	**Feb 11, 2016**	-15.20%	No	0.10%	25.50%
May 2, 2011	**Oct 4, 2011**	-21.60%	No	-0.10%	28.50%
Jul 20, 1998	**Oct 8, 1998**	-22.50%	No	5.10%	38.10%
Aug 25, 1987	**Oct 20, 1987**	-35.90%	No	3.50%	16.30%
Sep 21, 1976	**Mar 6, 1978**	-19.40%	No	2.90%	11.50%
Feb 9, 1966	**Oct 7, 1966**	-22.20%	No	1.40%	32.10%
Dec 12, 1961	**Jun 26, 1962**	-28.00%	No	3.70%	34.20%
	Averages:	***-23.08%***			***27.90%***