

Market Update

As the Coronavirus pandemic hammered the global economy, businesses around the globe have felt the impact. In fact, the Dow concluded its worst first quarter performance in history and volatility peaked at levels not seen since the 2008 financial crisis. The oil markets were pummeled as both Russia and Saudi Arabia refused to cut oil production, while the world used less and less oil due to global lockdowns. Negative news headlines kept coming which appeared to have no end in sight to the swift economic distress. However, we are starting to see some light at the end of the tunnel with medical and economic advancements.

So, What Lies Ahead?

Italy and Spain might be peaking and heading down the backside of the virus curve. New York may not be too far behind and there is hope that the rest of the country will follow. Fighting the virus is first and foremost the number one priority if we are to make a comeback and re-start the global economy. Consumer spending accounts for roughly 2/3 of global economic activity and consumers will have to regain confidence in their safety when going out to restaurants, movies, concerts, and sporting events. If anxiety endures and people are reluctant to spend, recovery will be muted. If China provides a window into recovery, all indications such as, electricity usage, retail openings, and manufacturing seem to be returning to normal levels.

Victory over the coronavirus is attainable and the medical community will eventually produce effective antivirals and a vaccine. Until that time, the Congress passed the CARES Act to help support working individuals and small businesses. The Federal Reserve has increased their balance sheet and is providing enormous liquidity to stabilize markets. The combined monetary and fiscal policy is approaching \$4 trillion with most likely more to come as the harsh, economic effects of this pandemic continue.

The brutal pain a 100% equity portfolio felt, similar to the S&P 500 or the Dow, was not experienced by most diversified investors for the first quarter of 2020. That's not to say there was no agony and anguish watching account balances diminish on paper, but most balanced, diversified portfolios did not feel the full impact that a 100% equity portfolio experienced.

What Can Be Done and What We're Doing?

The majority of our client portfolios are fully diversified with cash, fixed income, alternatives and equities. Clients have portfolios constructed based on their personal, long-term goals and aligned with their risk tolerance and timeframe for needing funds. While we will be making adjustments to take advantage of the current market dislocation, we do not feel dramatic changes to portfolios, as in selling all equities, is the best long-term strategy. There is an abundance of data that supports all-in-all-out moves (market timing), leads to losing money. We believe an investor must be clairvoyant or extremely lucky as they have to be correct twice - selling out before the market drops and then re-investing when the markets turn. Market turns are typically never clear and tend to be sudden as we have recently seen with daily swings of 5%-9%.

We anticipate making adjustments in portfolios to take advantage of unrealized tax losses and start harvesting these losses in client's taxable accounts. Tax swapping to recognize current temporary losses allows the taxpayer to use these losses to offset future realized capital gains. We will add holdings to portfolios that appear to be prudent opportunities for the long term and selling others that we are less optimistic about during a recovery.

We feel staying disciplined and being able to have the confidence to push through a market environment similar to what we are experiencing is gained from:

- **Having a solid plan** - Most, if not all, our clients have a goal-based plan driven by their needs, wants and wishes. Probability of success scenarios using multiple rates of estimated returns, including severe stock market corrections, have been discussed and accounted for. Of course, a crisis hurts worse when you're in the middle of it rather than seeing it on a screen or paper in your rear-view mirror.
- **Having a realistic investment portfolio** - In general, our broadly, diversified portfolios include allocations to cash, fixed income and alternatives are acting as a buffer for the equity portion of the portfolio. While the portfolio will still experience volatility, ultimately having a diversified portfolio is helpful in reducing part of the downside risk.
- **Not acting or reacting impatiently** - Selling everything and then buying it back when it "feels right" is typically a mistake. It's very difficult to time the top and the bottom of the market when everything is moving so quickly.

Our Belief

In our opinion there is an enormous range of potential outcomes and speculating about any specific path forward is fruitless. Nobody knows whether or not we will see a V, U, L, or W shaped recovery as we have never seen a situation like this before. Some companies will fall, mergers and acquisitions will pick up as the strong absorb the weak, and new companies will emerge. Global economies will face significant economic hurdles moving forward as markets tend to react before the full force is felt throughout the economy. We are realistic that any large improvements won't be felt next week or next month, but we are confident that, as they generally always do, the capital markets will recover.

Additionally, we are optimistic that the medical community will solve the virus sooner than later. The global medical community is focused and ready to deliver potential treatments/immunizations to further reduce the health risk. We will recover and learn tremendous lessons from this experience. What doesn't kill us only makes us stronger and that will reign true for the financial markets as well.

As always, if you have any questions or would like to discuss your accounts or financial situation further, please call your advisor directly or email us at clientservices@benchmarkfinancial.info. Please visit our website at www.benchmarkfinancial.info for more information on our planning services.

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