



Welcome to our surviving market swings seminar. We're glad that you could join us here today.

Before we get started, I'd like to introduce myself and my company.

*[Note to presenter: Give a brief personal background, then talk about your organization and give its location. If appropriate, introduce other members of your organization who are in the room and discuss any housekeeping issues.]*

## Our Commitment

- Provide sound financial information
- Help you identify goals
- Offer complimentary, no-obligation consultation

The information provided in this presentation is not written or intended as tax, legal, investment, or retirement advice or recommendations, and it may not be relied on for the purpose of avoiding any federal tax penalties. Individuals are encouraged to seek advice from an independent tax or legal professional.

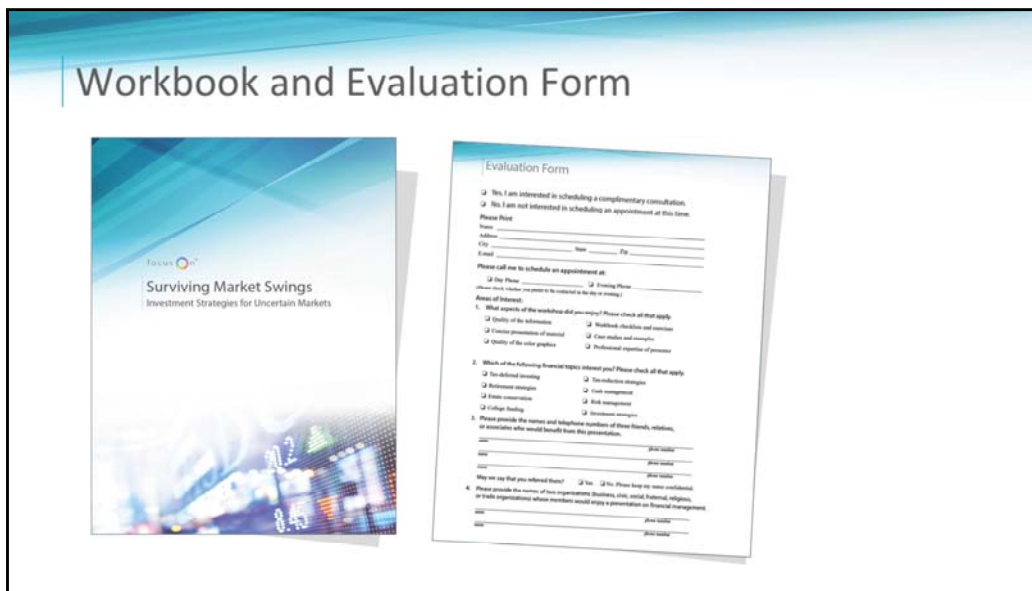
We use seminars like this one to introduce ourselves and to develop strong working relationships with members of the community like you.

Our commitment extends beyond simply offering financial services. We are committed to helping you evaluate your financial situation and giving you tools to help make informed decisions and pursue your financial goals.

We hope that after attending the seminar, you'll want to meet with us in our office. This is a complimentary, no-obligation consultation that we offer to everyone who attends our seminars. During that meeting, we can discuss any questions you have as a result of what we discuss here. If you prefer, we can use that time to examine your specific situation and begin the process of helping you formulate a financial strategy that will suit your needs.

We know that we'll establish a working relationship with you only when *you* are confident that we can be of service. We want you to understand your options and to know how you may benefit from working with us.

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Let's talk about the workbook you received as you entered.

We've found that people are more likely to remember something they act on rather than something they only hear about. That's why we designed this workbook so you can apply what you learn to your situation. In it you'll find helpful materials that reinforce the seminar's major points and will be a valuable resource for you.

Feel free to highlight, underline, or make notes in whatever way serves you best.

Inside your workbook, you'll find an evaluation form just like this one.

*[Note to presenter: Pull out an evaluation form for your seminar participants to see.]*

At the end of the presentation, please use this form to tell us whether you're interested in taking advantage of the complimentary consultation.

We'd like to make you two promises concerning this form. First, if you check "Yes, I am interested in scheduling a complimentary consultation," we'll call you in the next couple of days and set up an appointment. Second, if you check "No, I am not interested in scheduling an appointment at this time," we won't call you directly after the seminar.

In exchange for these two promises to you, please promise that you will fill out this form. Many seminar attendees do come in for a consultation, so we've set aside time just to meet with you.

When you do come to our office, feel free to leave your checkbook at home. We are very interested in developing working relationships with you, but that decision is yours.



After losing ground in 2018, U.S. stocks had a banner year in 2019. The S&P 500 gained almost 29 percent — the highest annual increase since 2013.<sup>1</sup> It's too early to know how 2020 will turn out, especially after the extreme volatility surrounding the COVID-19 coronavirus pandemic in early March, but you can count on market swings to challenge your patience as an investor.

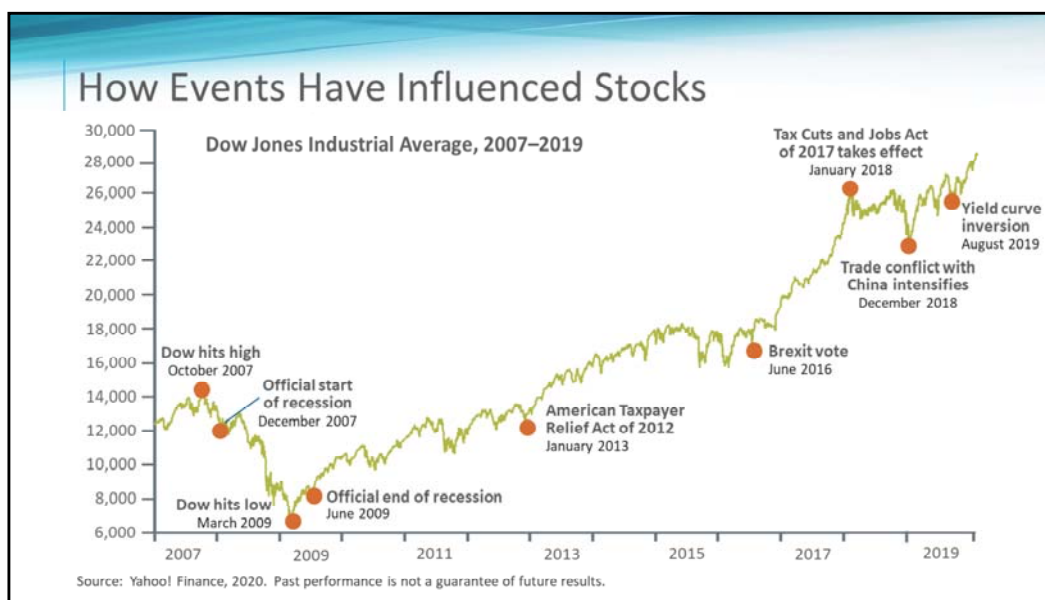
Political uncertainty, international conflicts, interest-rate decisions, and economic shifts — here and abroad — can spur volatility in the financial markets. It's generally a case of *when* and not *if* it happens.

It's only natural to be concerned when the market drops. But expecting volatility and having a sound financial strategy in place may be the best defense when events roil the markets. This might also help prevent you from making emotion-based investment decisions.

Your plans and expectations for the future shouldn't have to depend on daily fluctuations in the stock market. Losses and gains are part of investing. By using deliberate, time-tested approaches, you may be able to pursue your goals without feeling as though you need to constantly adjust your portfolio to react to today's news.

*The S&P 500 is generally considered representative of U.S. stocks. The performance of an unmanaged index is not indicative of the performance of any specific investment. Individuals cannot invest directly in an index. Past performance is not a guarantee of future results. Actual results will vary.*

Source: 1) S&P Dow Jones Indices, 2020



Consider how events have influenced stocks over the last 13 years. This graph shows the performance of the Dow Jones Industrial Average from 2007 through 2019. It starts just before the onset of the financial crisis that led to the Great Recession, which was the worst downturn since the 1930s.

As you can see, stocks fell more than 50 percent between October 2007 and March 2009, yet recovered much of their losses during the last three quarters of 2009.<sup>1</sup> In reaction to the financial crisis, many investors reduced their exposure to equities. As a result, they may not have participated fully in the market rebound.

In recent years, the Dow has reached new highs while enduring a few bumps along the way. In 2016, for example, stocks experienced their worst-ever start to a new year when the Dow dropped more than 6 percent in the first five days.<sup>2</sup> Yet by year's end, the Dow edged close to a record high of 20,000.<sup>3</sup>

In 2017, despite *many* challenges — including a contentious political climate, several devastating natural disasters, and three interest-rate hikes by the Federal Reserve — the Dow maintained its record-setting pace and closed the year approaching 25,000.

In 2018, the Dow crossed 26,000 for the first time, but fell sharply in the fourth quarter to end the year just above 23,000. Four interest-rate hikes, more political strife, and a trade dispute with China eventually took a toll on the markets.<sup>4</sup>

In 2019, stocks had their best year since 2013, but not without bouts of volatility. The Dow dropped more than 6 percent in the month of May, mostly due to escalating trade tensions. And on August 14, the Dow plunged 800 points (or 3 percent) when a yield curve inversion triggered recession worries and spooked the market. Still, the Dow recovered pretty quickly and kept on climbing, ending the year well above 28,000.<sup>5–6</sup>

Keep in mind that the value of stocks fluctuates with market conditions. Shares, when sold, may be worth more or less than their original cost. Past performance is not a guarantee of future results. Actual results will vary.

Sources: 1, 3–5) Yahoo! Finance, 2020 (Dow Jones Industrial Average from 1/1/2007 to 12/31/2019); 2) *The Wall Street Journal*, January 8, 2016; 6) *The Wall Street Journal*, August 11, 2019

## Historical Perspective of Market Movements

Bear Markets Since 1950	Calendar Days to Bottom	U.S. Stock Market Decline (S&P 500 Index)
August 1956 to October 1957	446	-21.5%
December 1961 to June 1962	196	-28.0%
February 1966 to October 1966	240	-22.2%
November 1968 to May 1970	543	-36.1%
January 1973 to October 1974	630	-48.2%
November 1980 to August 1982	622	-27.1%
August 1987 to December 1987	101	-33.5%
July 1990 to October 1990	87	-19.9%
March 2000 to October 2002	929	-49.1%
October 2007 to March 2009	517	-56.8%

Source: Yahoo! Finance, 2020. Past performance is not a guarantee of future results.

Realizing that markets are historically cyclical might help keep you from overreacting to short-term market swings. Do you know the difference between a market pullback, a market correction, a bear market, and a bull market?

A **pullback** is typically defined as a 5 percent to 10 percent dip in a market index (such as the Dow or the S&P 500) from a recent high. When the market closes 10 percent to 20 percent below its 52-week high, it is considered to be a **market correction**.

A **bear market** is typically defined as a decline of 20 percent or more from the most recent high, and a **bull market** is an increase of 20 percent or more from a bear market low.

In the first quarter of 2020, coronavirus fears and the realities of a seriously disrupted U.S. economy sent stocks into bear market territory for the first time in nearly 11 years.

As you can see here, there have been 10 bear markets (prior to this one) since 1950, and the market recovered eventually every time. On average, bull markets lasted longer (1,955 days) than bear markets (431 days) over this period, and the average bull market advance (172%) was greater than the average bear market decline (-34.2%).

The bottom line is that neither the ups nor the downs last forever, even if they feel as though they will. In the midst of the worst downturns, there were short-term rallies and buying opportunities.

*The return and principal value of stocks fluctuate with changes in market conditions. Shares, when sold, may be worth more or less than their original cost.*

Source: Yahoo! Finance, 2020 (data for the period 6/13/1949 to 3/12/2020). Stocks are represented by the S&P 500, an unmanaged group of securities that is considered to be representative of the U.S. stock market in general. The performance of an unmanaged index is not indicative of the performance of any specific investment. Individuals cannot invest directly in an index. Past performance is not a guarantee of future results. Actual results will vary.



## Factors That Influence the Economy and the Financial Markets

- GDP growth
- Inflation/interest rates
- Employment conditions
- Home prices
- Consumer spending
- Business investment
- Corporate profits
- Trade tensions
- Oil prices

When developing your financial strategy, it's important to think about how overall economic conditions might affect your investment portfolio — now and in the future. You should position yourself financially for a range of possibilities, taking into consideration the factors that may influence the economy and the financial markets, many of which are listed here.

The U.S. economy held its own in 2019 despite the trade war with China and a slowing global economy. U.S. gross domestic product (GDP) — the value of all goods and services produced across the economy — grew 2.3 percent in 2019. Although growth slowed from 2.9 percent in 2018, it was about average for the economic expansion that began in mid-2009 and became the longest on record in July 2019.<sup>1-2</sup>

GDP growth was powered by a strong job market that benefited consumers. The unemployment rate fell to a 50-year low of 3.5 percent in September 2019, which is where it finished the year.<sup>3</sup> Wages for private-sector workers increased about 3 percent, and consumer spending, which accounts for about two-thirds of U.S. economic growth, grew 4 percent for the year.<sup>4-5</sup>

The Federal Reserve supported the economy by cutting the benchmark federal funds rate three times in the second half of the year, and inflation continued to run slightly below the Fed's 2 percent target.<sup>6</sup>

The housing market got off to a slow start, but the second half of 2019 saw a pickup in activity. The median price of an existing home rose 7.8 percent to \$274,500 at the end of the year. Favorable mortgage rates spurred demand, but inventories were tight, especially at the affordable end of the market. As usual, sales and price growth varied greatly by geographic region and price range.<sup>7</sup>

Trade disruption had a negative impact on domestic business investment, industrial production, and exports. In fact, part of the justification cited by the Federal Reserve for lowering interest rates in 2019 was weakness in business fixed investment and exports.<sup>8</sup>

Two major trade deals were announced toward the end of 2019: a partial truce with China and the United States-Mexico-Canada (USMCA) agreement. These deals were expected to remove some of the uncertainty that impacted U.S. businesses with exposure to global markets.<sup>9</sup>

Sources: 1, 5) U.S. Bureau of Economic Analysis, 2020; 2) *The Wall Street Journal*, January 30, 2020; 3-4) U.S. Bureau of Labor Statistics, 2020; 6, 8) Federal Reserve, 2019; 7) National Association of Realtors, 2020; 9) *The Wall Street Journal*, December 15, 2019



So, what might we look forward to in 2020? As recently as late 2019, the U.S. economy was expected to keep sailing along at a moderate pace. But that was before the outbreak of the novel coronavirus (COVID-19) spread quickly to become a global pandemic.

In March 2020, the Federal Reserve moved swiftly to support the U.S. economy and help alleviate stress in the financial markets, slashing the benchmark federal funds rate to near zero (0% to 0.25%) and essentially committing to unlimited debt purchases to support the financial markets. Emergency lending operations were launched to keep credit flowing to households and businesses.

With the outlook uncertain and evolving on a daily basis, the publication of economic projections by Fed officials was delayed until later in the year. However, the sudden halt in business activity means a sharp downturn in gross domestic product (GDP) growth, and a large spike in unemployment is widely expected. Unfortunately, a recession — two consecutive quarters of negative GDP growth — is not out of the question.

To help ease the economic pain caused by the pandemic, Congress responded with the largest economic relief bill in history, the Coronavirus Aid, Relief, and Economic Security (CARES) Act. Roughly \$2 trillion will be spent to aid hard-hit workers, businesses, and states, which could help speed up the economic recovery when the health crisis passes.

Sources: Federal Reserve, 2020; *The Wall Street Journal*, March 16 and 25, 2020



## Four Steps to Building a Stronger Portfolio

### **1. Develop a Sound Financial Strategy**

2. Assess Your Investment Options
3. Utilize Fundamental Investment Tactics
4. Put It All Together

Today we'll discuss four topics that may help you cope with market fluctuations as you pursue your goals.

First we'll look at how developing a sound financial strategy can create a solid foundation for your investment portfolio.

Next we'll identify a number of investment vehicles and explain the role they might play in your portfolio.

Then we'll discuss fundamental investment tactics that could help protect a portfolio over time.


And finally we'll look at a few ideas for putting it all together.

PREVIEW

## Develop a Sound Financial Strategy

Three main considerations

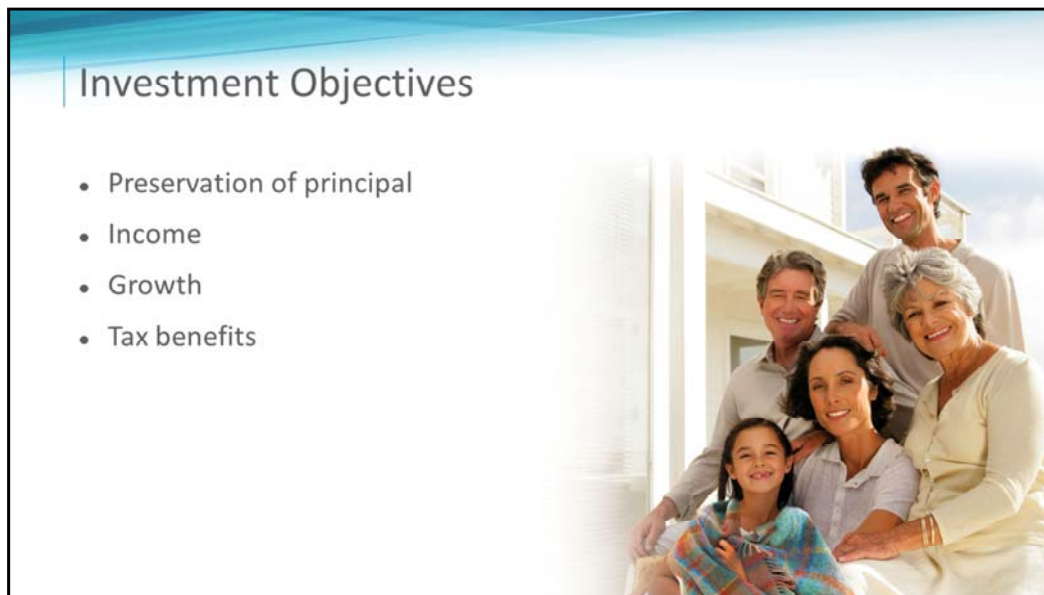
- 1 Investment objectives
- 2 Time frame
- 3 Risk tolerance



Developing a sound financial strategy may help keep you from being stampeded into making poor investment decisions — especially during uncertain times.

There are three main considerations to bear in mind when developing a sound strategy. You need to have a clear understanding of your investment objectives. You need to know your investment time frame. And you need to understand your risk tolerance.

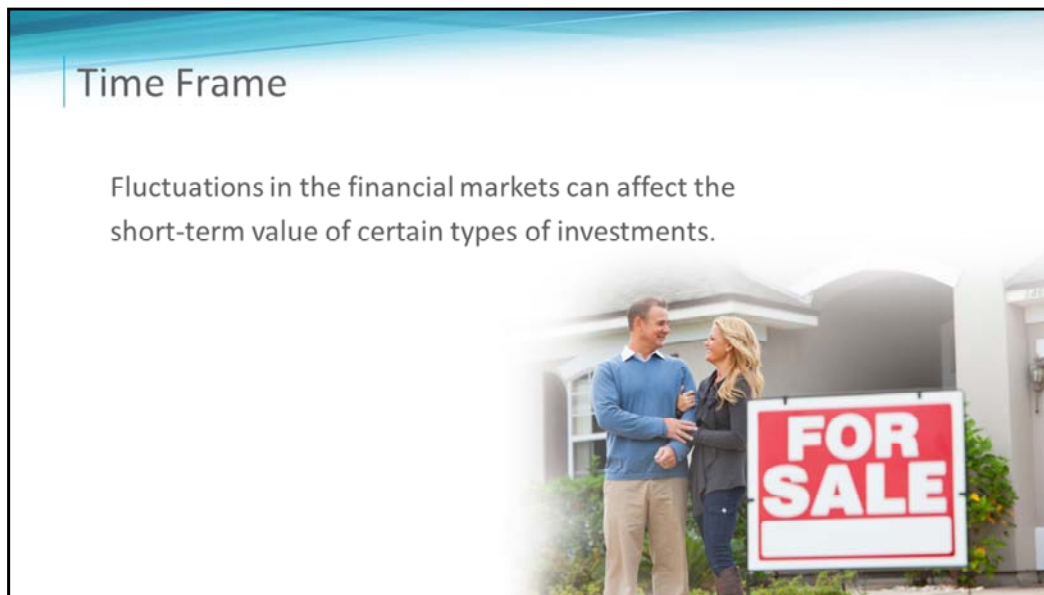
Let's look at each of these considerations in a bit more detail.



The first step in developing a sound financial strategy is to establish your investment objectives.

For example, what are you trying to achieve by investing? Are you working toward a comfortable retirement, a college education for family members, a cabin in the mountains, or a trip around the world?

Your personal financial goals will help determine the appropriate mix of assets for your investment portfolio depending on which objectives you are pursuing, such as preservation of principal, income, growth, and/or tax benefits.



## Time Frame

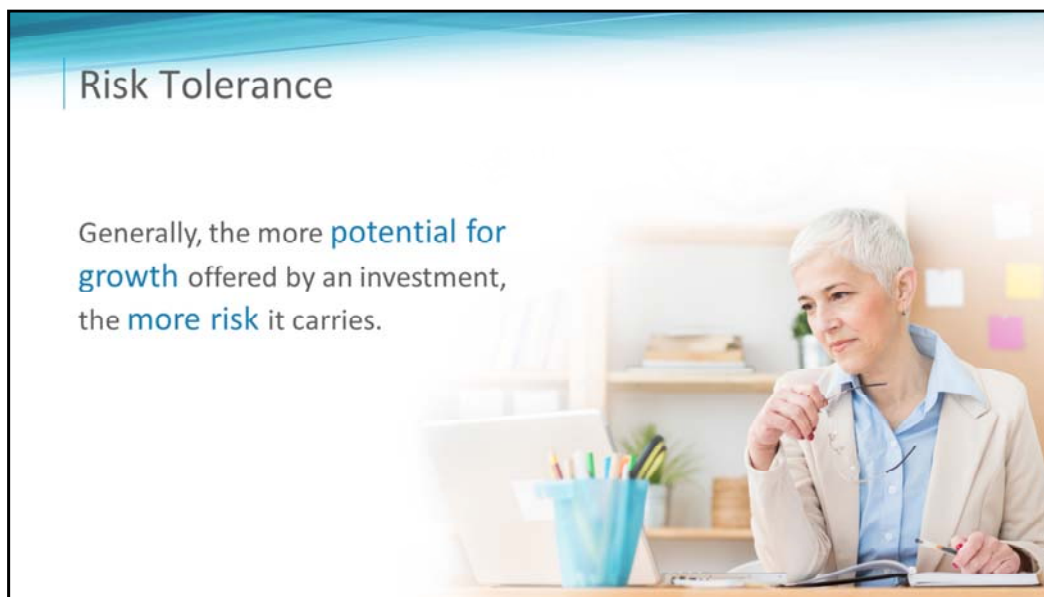
Fluctuations in the financial markets can affect the short-term value of certain types of investments.

The second element in developing a sound strategy is your time frame.

The amount of time you have before you need to accomplish your goals can have a tremendous impact on the investment categories you choose. That's because fluctuations in the financial markets can affect the short-term value of certain types of investments.

If, for example, your goal is saving for a down payment on a house in the next year or two, your goal is a specific amount of money and your time frame is very short. Therefore, you wouldn't want to invest all your money in aggressive investments that carry a lot of risk. You simply wouldn't have time to recover from heavy losses if they occurred.

Retirees are especially vulnerable to market volatility. Think about what could happen if a bear market or market downturn occurred during the early years of your retirement and you had a high percentage of your portfolio in stocks.



## Risk Tolerance

Generally, the more **potential for growth** offered by an investment, the **more risk** it carries.

The third element in developing a sound strategy is your risk tolerance.

Determining your risk tolerance means evaluating how much risk you are willing to take in pursuit of your financial goals, including the ability to watch the value of your investments fluctuate without becoming queasy.

Generally, the more potential for growth offered by an investment, the more risk it carries.

Volatility in the markets has tested many investors' risk tolerance and driven home the fact that risk is an essential consideration of a sound investment strategy.

PREVIEW

## How Much Risk Can You Stand?

A Sound Financial Strategy

### Risk Tolerance Quiz

How much risk are you willing to take to pursue your goals? Generally, the more potential for growth offered by an investment, the more risk it carries. This quiz will help you assess your own ability to withstand investment risk.

Which of the following investments do you feel most comfortable with?

- U.S. Treasury bonds
- High-grade corporate bond
- Dividend stock

Of the following stocks, which do you feel would most suit your needs?

- A conservative utility stock that pays high dividends but offers little chance for long-term growth.
- A stock that offers the potential for modest dividends and growth.
- An aggressive stock company that pays no dividends but offers great potential for long-term growth.

What have you historically considered most important from your investments?

- Safety
- Conservative growth
- Maximum growth

You just made a \$100,000 investment. The following amounts represent the maximum loss you will accept over a 12-month period. Which range of possible outcomes would you prefer?

Best Case	Worst Case	Possible Outcomes
\$100,000	\$90,000	A - \$1,000
\$100,000	\$80,000	B - \$5,000
\$100,000	\$70,000	C - \$10,000

Which statement most closely resembles your feelings about risk?

- I am not willing to take risk with my investments.
- I am willing to take limited risk with my investments.
- I am willing to take substantial risk with my investments.

**RECOMMENDATIONS**

If you selected mostly "a" answers, you are likely to be a low-risk investor. For example, you might be mostly concerned with the preservation of your capital and the potential for current income. You aren't willing to risk your capital for greater potential returns.

If you selected mostly "b" answers, you are generally conservative, but recognize the need to consider growth-oriented alternatives. You may be willing to take modest risks to earn above-average, long-term returns.

If you chose mostly "c" answers, you may be a moderately high-risk investor. You are primarily concerned with long-term appreciation, and you may be willing to take on more risk to earn greater long-term potential returns.

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How much risk can you stand? We've developed a Risk Tolerance Quiz to help you assess your own ability to withstand risk. You'll find it on page 7 in your workbook.

*[Note to presenter: Pause to give participants time to locate the quiz. If time permits, provide time for them to answer the questions and view the results. Or, if you prefer, you can recommend that they take the quiz later when they return home.]*

Hopefully, your answers to the quiz will give you a better idea of your risk tolerance and help you make more informed decisions when choosing appropriate investments for your portfolio.