I'M HERE TO REMIND YOU

VIRTUS
INVESTMENT PARTNERS

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Stocks were halted after a 7% drop on the morning of March 9, which triggered the first of three circuit-breakers designed to give buyers and sellers a chance to regroup during moments of extreme volatility.

The system is clearing itself of over-leveraged players, forced liquidators, and panic sellers. There are people selling for a variety of reasons, but everything that gets sold, from a share of Apple to a barrel of oil, must also have a buyer on the other side.

Unprecedented things are taking place, such as the entire U.S. Treasury yield curve now below one percent for the first time ever, meaning every U.S. bond, from the 3-month T-Bill to the 30-year Treasury, currently yields less than 1%. The 10-year went from 1.5% to 1% to 0.5% in three sessions. Utterly historic.

You will see and hear amazing things—in stock prices, in oil prices, in government and central bank response. It's going to be a time you'll look back on.

But, I'm here to remind you of the things that are now still true and will always be true, regardless of what happens:

1. **This is the Super Bowl for financial advisors.** When the market is going straight up, months and months in a row, with little volatility, financial advisors can come to seem like a vestigial appendage—*What do I need you for?* After over 20 years of experience, and having survived multiple 20% bear markets and two episodes in which the S&P 500® was cut in half, I can tell you definitively that these are moments when advisor-client relationships are solidified. Not in summertime, when the living is easy, but right now. In the depths. In the middle of the maelstrom. Helping people contain their fears. Keeping people from doing what might feel like a relief now but is sure to represent a mistake in hindsight. Refocusing people on the reason they're investing in the first place, and the things they want to be able to fund far into the future. These are the environments in which clients' retirements are saved and advisors elevate their game and come to embody the highest ideal of our profession. Game on.

2. **Your retirement plan probably isn't going to change,** nor will the future uses of your money, which means throwing out your long-term plan or radically changing your portfolio makes absolutely no sense. Locking in permanent losses today, while fleeing to an asset class that yields nothing, is a surefire way to be unable to pursue our dreams tomorrow.

3. **The end of the world only comes once.** If your new base case is some sort of *Birdbox*-like scenario, then it will make no difference whether or not your asset allocation is incorrect. So let's assume we're going to end up somewhere between the February highs and Sandra Bullock traipsing through a forest, in a blindfold, to save her children.

4. **No, nobody "called this."** I mean, plenty of people had been calling for recession this year but they are the same people who have been calling for recession every year. There are people who spent 10 years and about 23,000 Dow points predicting bear markets perpetually. This doesn't take any talent. If you can find me someone who was a bull until January and then a bear beginning in February, I will be suitably impressed. But even that person will not have the ability to tell you when it's over and time to get bullish again. A perfectly correct economic or market call, that cannot be systematized and repeated in the future, is worth just as much as no call at all. Unless this was your very last year as an investor.

5. **Never pull the goalie.** The risk-off portion of your strategic asset allocation—most likely comprising some combination of long-term government bonds, short-term government bonds (or cash), TIPS, gold, and municipal bonds, has done its job since the stock market's peak. Long-term Treasuries in particular have gone literally vertical

as yields have plunged. As improbable as bonds had looked for forward returns at the end of 2019, they have worked spectacularly well during the recent panic. These segments of your asset allocation are there to play defense for you. They come to represent the dry powder—so that when you rebalance into stocks that have gotten killed, you have somewhere to take the capital from that has performed well. Do this systematically over time and volatility's effects have been negated.

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6 "Why don't we just sell everything and wait this out? Get back in when the dust settles?" This is the question every financial advisor is getting this week, from at least one or two clients. They're asking out of genuine curiosity, not just panic or fear. And it's a great question. The great answer is that you won't know when the dust settles. There's no airplane writing the "all clear" in the sky above your neighborhood. And when the dust settles, do you think stocks will be at their lows? Or will they have already rallied furiously, in anticipation of this? Let me give you an example. Today is March 9th. Precisely 11 years ago today, in 2009, the stock market stopped going down. There was no reason. The dust had settled, without fanfare or any sort of official announcement. If you had polled people that day, or week, or even month, most would not have agreed that we had seen the worst. The economic headlines were not improving. But there it was. And by June 1st, less than three months later, the stock market had climbed 41% from that March low. And even with that having happened, the majority of participants still weren't clear that the dust had fully settled. That we had, in fact, seen the worst. There were still people three, five, and seven years later who had gone to cash and still hadn't gotten back into stocks. They missed a new record high a few years later and hundreds of percentage points in compounding on their assets.

7 All-in or all-out are terrible strategies. You cannot afford to miss the 25 best days in the market, or your returns are wiped out and you may as well have simply sat in 5-year Treasuries. The catch is that the 25 best days are frequently clustered among the 25 worst days. You can't have the up without the down. Anyone promising you otherwise is either uninformed or a liar. I have often observed that it's usually some combination of the two. In October of 2011, we were in the midst of the European Debt Crisis and stocks were rising and falling by 2% and 3% every day. Volatility was off the charts. I wrote about the stupidity of being all-in or all-out nine years ago, in the middle of that storm, and every word of it still rings true right now.

8 There are things you can do right now to be proactive and take advantage of the moment we're living through:

a) Up your automated 401(k) contributions at work. Raise your equity exposure if appropriate, given your time horizon.

b) Start a systematic investment program.

c) Make sure your funds/stocks are set to reinvest dividends automatically rather than have these regular payments sit in a money market fund earning nothing. You'll be buying more shares of your investments at lower prices.

d) Re-read the classics on risk and reward. Turn off the news and grab a life-changing book that will really give you the perspective you need right now.

e) Make your 529 contribution now. Make your SEP-IRA contribution now. You may not be getting the lowest price, but a 15% or 20% discount to the prices of a month ago is almost certain to look like a steal years from now.

9 Most importantly, remember your ABC's: Always Be Cool. You only have control of one thing—your own actions. The other stuff will work itself out, regardless of what you think or say or do. So be cool. Be armed with context, wisdom, patience, humility, and a sense of humor. See you on the other side.

To learn more, please contact us at 800-243-4361 or visit virtus.com.