LITMAN GREGORY ASSET MANAGEMENT

Overcoming Panic in Volatile Markets

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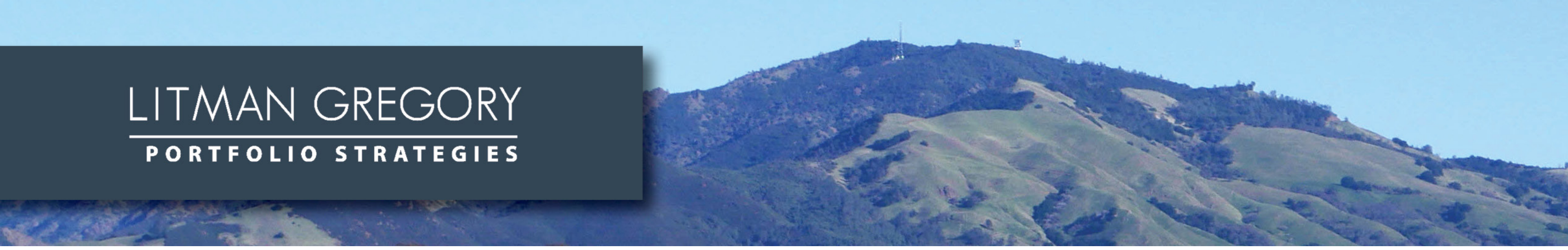

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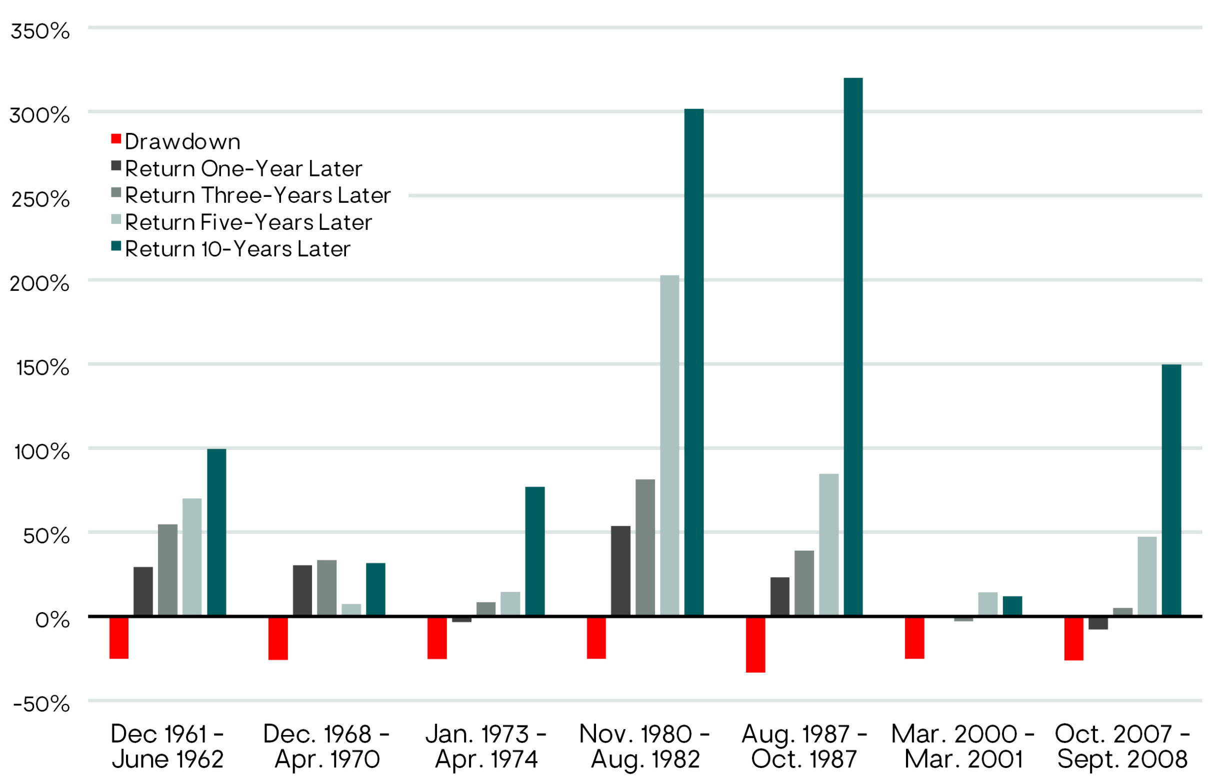
MARCH 2020

As we all know from news headlines, global stock markets have now entered a bear market, having declined more than 20% from recent highs. As of Thursday, March 12, U.S. stocks had declined over 26% from their high point on February 19. And markets have remained extremely volatile since then. In our last portfolio update, we referenced a famous quote from value investor Warren Buffett: "Be greedy when others are fearful." Historically, this has been a very good investment mantra to have.

In Litman Gregory's 30-plus years, we've been through several crises and stock market declines. From experience, we know the best time to stick to your investment discipline and buy is usually when you *feel* fearful but your analysis suggests the likelihood of a strongly favorable medium- to longer-term outcome is very good, as we believe is true today.

What Happens After Markets Fall 25%



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A 25% or greater drawdown in U.S. stocks is quite infrequent. It's happened only eight times in the past 70 years. But such painful periods do happen. Investors in equities need to be emotionally and financially prepared for them. And the longer-term returns are worth the short-term discomfort.

Since 1950, buying U.S. stocks after the initial 25% decline of a bear market—as we are doing in a prudent, incremental fashion in portfolios during this downturn—delivered strong returns over the next five or 10 years most of the time.

Given that the main catalyst for this downturn is the coronavirus (alongside an unexpected oil price war) and that there is an end game for the virus at some point, it seems reasonable that markets will rally when virus news turns incrementally positive (the spread slows, new cases stabilize or drop, treatments or vaccines are developed, etc.). But even if this bear market lasts longer than the historical average of 18 months, potential forward-looking U.S. stock returns have already improved. And they will get even better the lower stocks go. Because we entered this crisis underweight to U.S. stocks, we have the flexibility now to add back to and even overweight them if the selloff deepens. Even after our first incremental purchases, we are still underweight to U.S. stocks.

So while it may be hard to imagine now, there *will* be an end point to this crisis from a medical perspective and thus from an economic and financial markets perspective. Of that, we think we can be confident. The key to overcoming panic in financial markets is to focus on the future. Remember, severe losses only become permanent losses if you sell, go to cash, and lock them in. Volatility is uncomfortable when you're living through it, but it sows the seed of the future's strong returns.

With all this said, we recognize it is natural for clients to be concerned when volatile markets impact portfolios. For that reason, we encourage you to connect with us to discuss any questions you may have. We are here for you and appreciate the trust you place in us as your guide through the everchanging financial market environment.

Best regards,

The Litman Gregory Investment Team