C.W. O'Conner Wealth Advisors, Inc.

Assessing the Current Market Pullback

March 2020

HOW DID WE GET HERE?

- Coronavirus
- Recent Energy Market Developments (Saudi Arabia vs. Russia)
- Upcoming 2020 Presidential Election
- Potential for Negative Interest Rates

OUTLOOK FOR 2020

Key Investment Themes for 2020:

1. **Managing Risk > Targeting Return:**
   Strong rebound in equity valuations in 2019 may abate as business activity slows.

2. **(Corporate) Credit Check:**
   Tempered allocation to credit and reliance on active managers appear prudent.

3. **A Case for Global Equity Exposure:**
   Continue to favor strategic allocations to international developed and emerging market equities to take advantage of opportunities outside of the U.S.

2019 was a golden year for financial asset returns characterized by falling interest rates, narrowing credit spreads and rising global equity valuations, meaning it was good to be invested.

Executive Summary of Year-Over-Year Return Assumption Changes

Asset Class	2019-2028 E(R)	2020-2029 E(R)	2020 vs. 2019
Cash*	2.3%	1.6%	-0.7%
TIPS	3.1%	2.0%	-1.2%
Muni Bond**	3.8%	2.2%	-1.6%
Muni High Yield**	8.1%	6.4%	-1.7%
US Bond	3.5%	2.3%	-1.2%
For. Dev. Bond	2.7%	1.5%	-1.2%
HY Bond	5.9%	4.5%	-1.4%
EM Bond	4.5%	2.9%	-1.6%
Global Equity	7.8%	7.2%	-0.6%
US Equity (AC)	6.2%	5.7%	-0.5%
US Equity (LC)	6.1%	5.6%	-0.6%
US Equity (MC)	6.3%	5.8%	-0.5%
US Equity (SC)	6.3%	5.8%	-0.5%
Int'l Dev. Equity	8.0%	7.4%	-0.6%
EM Equity	10.3%	9.7%	-0.6%
Real Estate	6.1%	5.5%	-0.6%
Midstream Energy	11.5%	11.2%	-0.3%
HFoF Multi-Strat	7.2%	6.3%	-0.9%
Private Equity	9.2%	8.7%	-0.5%

**3-month forecast*

***Tax equivalent yield based on highest marginal tax rate (37%)*

VOLATILITY IN PERSPECTIVE

54.46

Final close of the CBOE Volatility Index (VIX) on March 9, 2020
- Highest level since November 2008
- Eclipsed Dec 24, 2018 (36.07)

15.29

Average VIX reading from 1/1/15 – 03/09/20

-7.6%

S&P 500 Single-Day Drop on March 9, 2020
- Largest single-day decline since Dec 2008
- 19th largest single-day decline on record

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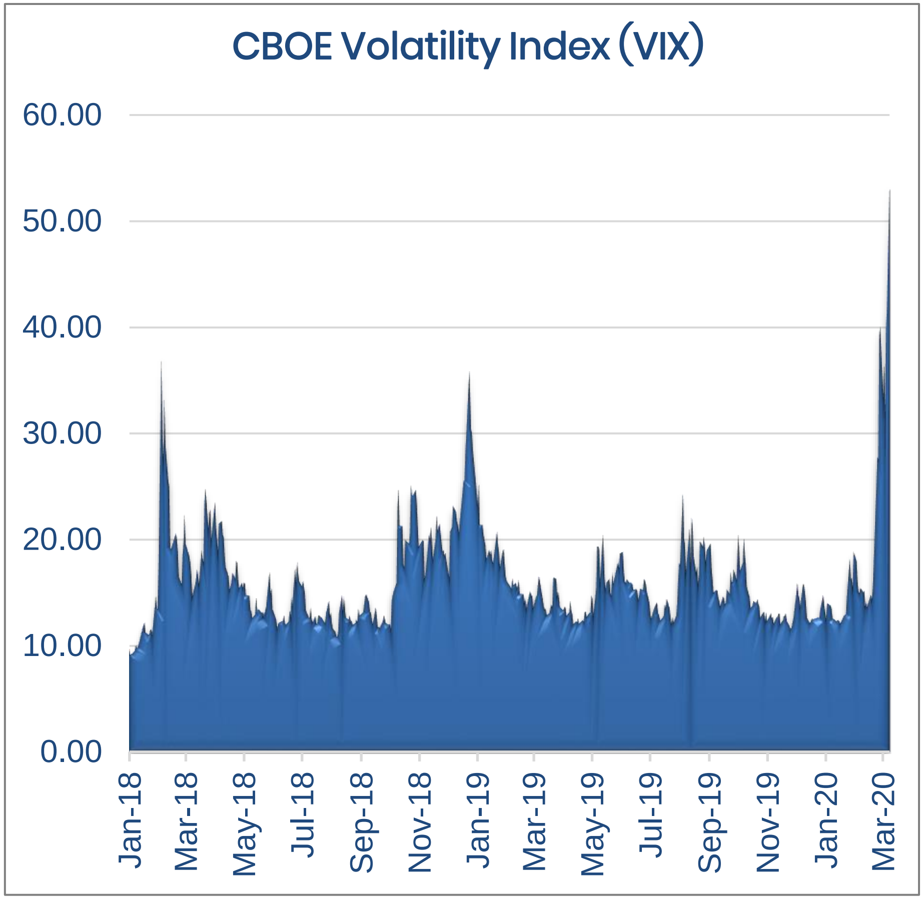
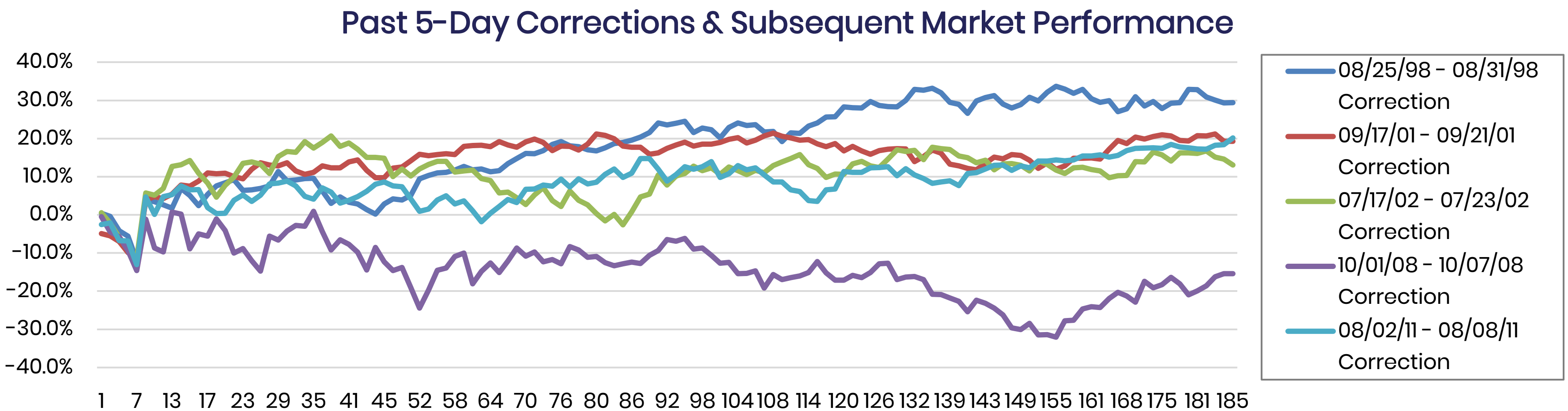
Number of trading days in 2020 the DJIA has traded by more than +/- 3% from prior day's close
- All seven days have occurred since Feb 21
- 11 such trading days from 2015-2019 (Source: FactSet)



RAPID MARKET CORRECTIONS

While certainly no guarantee, past precipitous market drops have generally been followed by a subsequent market rebound several months later.

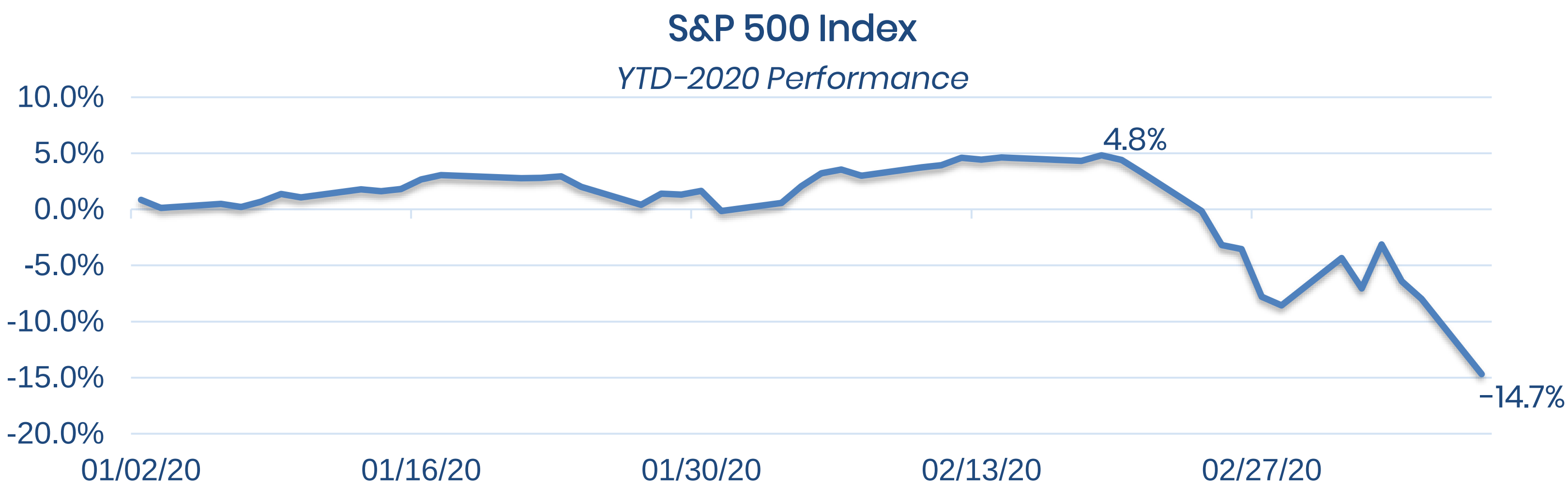


Correction	Decline Over 5 Trading Days	30 Days Later	90 Days Later	180 Days Later
08/25/98 – 08/31/98	-12.0%	6.2%	24.6%	29.4%
09/17/01 – 09/21/01	-11.6%	11.1%	18.0%	19.3%
07/17/02 – 07/23/02	-11.5%	20.7%	12.8%	13.0%
10/01/08 – 10/07/08	-14.6%	-9.2%	-6.9%	-15.4%
08/02/11 – 08/08/11	-13.0%	7.1%	11.9%	20.1%

Sources: Yahoo Finance, Kensho. Past performance does not indicate future performance.

PROUNOUNCED MARKET SELLOFF…

Equity markets are nearing a "bear market" (greater than 20% peak-to-trough decline)

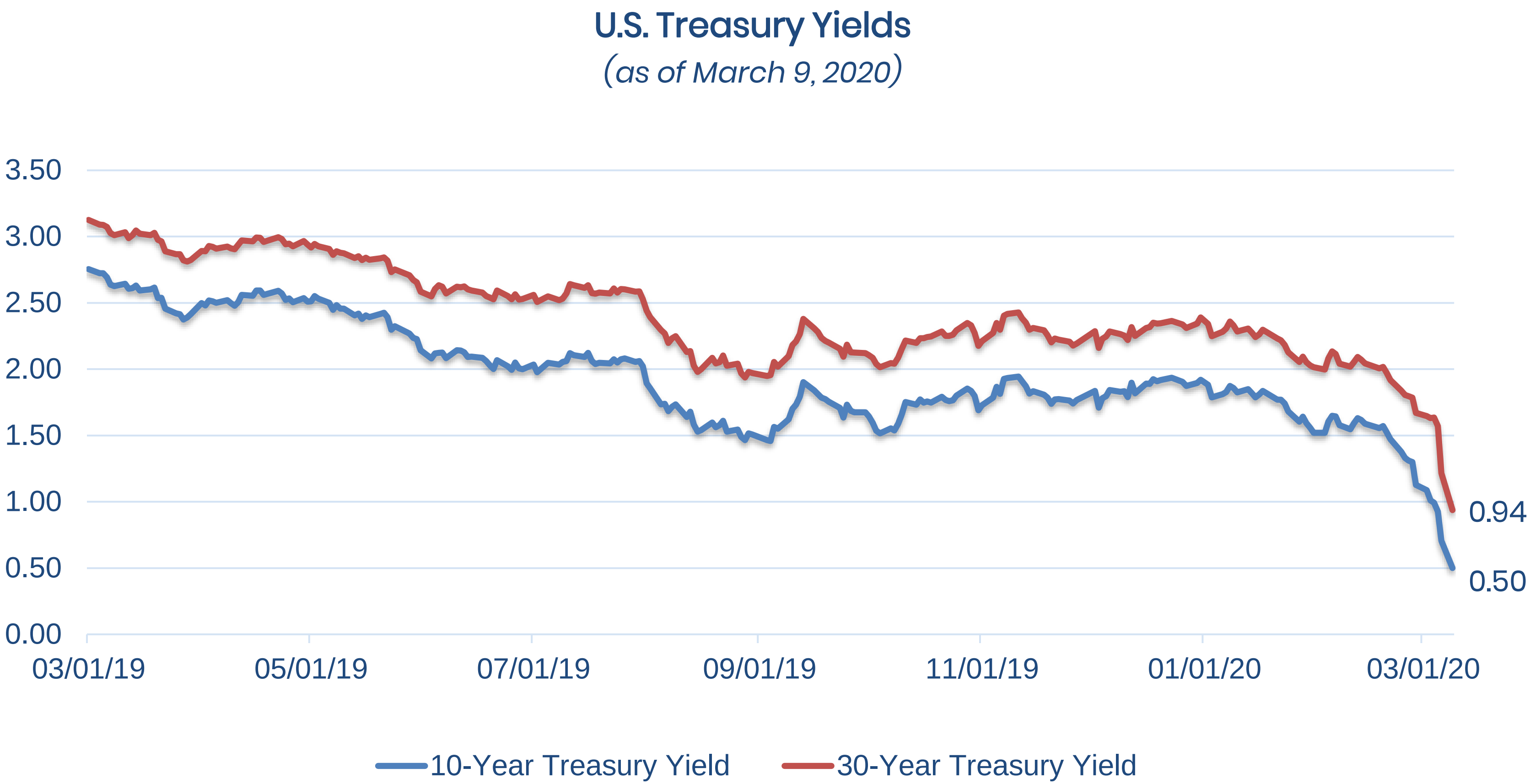


	YTD Performance (03/09/20)	Recent Decline from Peak	Current Level Last Traded (Most Recent)	Forward Price/Earnings Ratio (1/1 vs 3/9; 10-yr Avg)
S&P 500	-14.7%	-18.8%	May 2019	18.2 to 15.4; 14.9 avg
Russell 2000	-21.1%	-23.3%	December 2018	23.4 to 18.9; 20.4 avg
MSCI EAFE	-15.7%	-16.6%	December 2018	14.8 to 12.5; 13.3 avg
MSCI Emerging Markets	-14.8%	-17.2%	December 2018	12.9 to 11.3; 11.2 avg

Sources: Bloomberg, Morningstar Direct, FactSet

… MEANWHILE BOND MARKETS RALLY

Investors have fled to the safety of Treasury bonds, pushing yields to all-time lows



Source: Bloomberg

MARKET SNAPSHOT

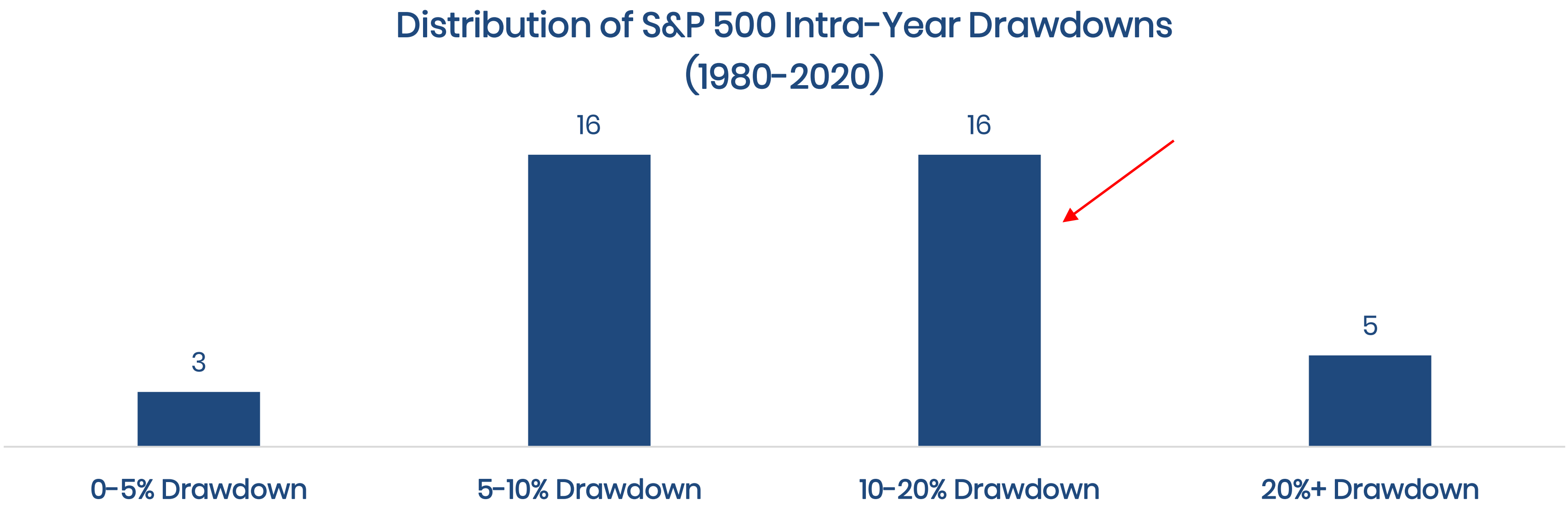
While 2020 declines have undoubtedly eaten into a portion of 2019 portfolio gains, many asset classes still stand with gains since January 2019.

	YTD (3/9/2020)	2019	Performance since 1/1/2019
FIXED INCOME			
TIPS (Barclays U.S. TIPS)	4.6%	8.4%	13.4%
Core Domestic (Barclays Aggregate)	6.1%	8.7%	15.3%
Municipal (Barclays Municipal 5-Year)	2.5%	5.4%	8.1%
High Yield Municipal (Barclays HY Municipal)	2.8%	10.7%	13.8%
High Yield (Barclays Corporate High Yield)	-4.9%	14.3%	8.7%
Int'l Hedged (Barclays Global Agg Ex USD Hedged)	3.4%	7.6%	11.3%
Int'l Unhedged (Barclays Global Agg Ex USD)	4.9%	5.1%	10.2%
Em Mkts Debt (JPM GBI EM Global Diversified)	-5.5%	13.5%	7.3%
EQUITIES			
Large Cap (S&P 500)	-14.7%	31.5%	12.2%
Small Cap (Russell 2000)	-21.1%	25.5%	-1.0%
International (MSCI EAFE)	-15.7%	22.0%	2.8%
Emerging Markets (MSCI EM)	-14.8%	18.4%	0.9%
REAL ASSETS			
Domestic Real Estate (NAREIT Equity REIT)	-11.6%	26.0%	11.4%
Global Real Estate (S&P Developed Property)	-10.5%	22.8%	9.9%
Energy Infrastructure MLPs (Alerian MLP)	-46.9%	6.6%	-43.4%

Source: Morningstar Direct. Past performance does not indicate future performance.

MARKET CORRECTIONS ARE COMMON

A 10%+ market decline is a fairly common occurrence in the context of longer-term market cycles.



Remarkably, the S&P 500 Index has produced positive returns in 30 of the past 40 calendar years, despite an average intra-year decline of 13.8%.

Source: FactSet, S&P 500

CORRECTION OR BEAR MARKET?

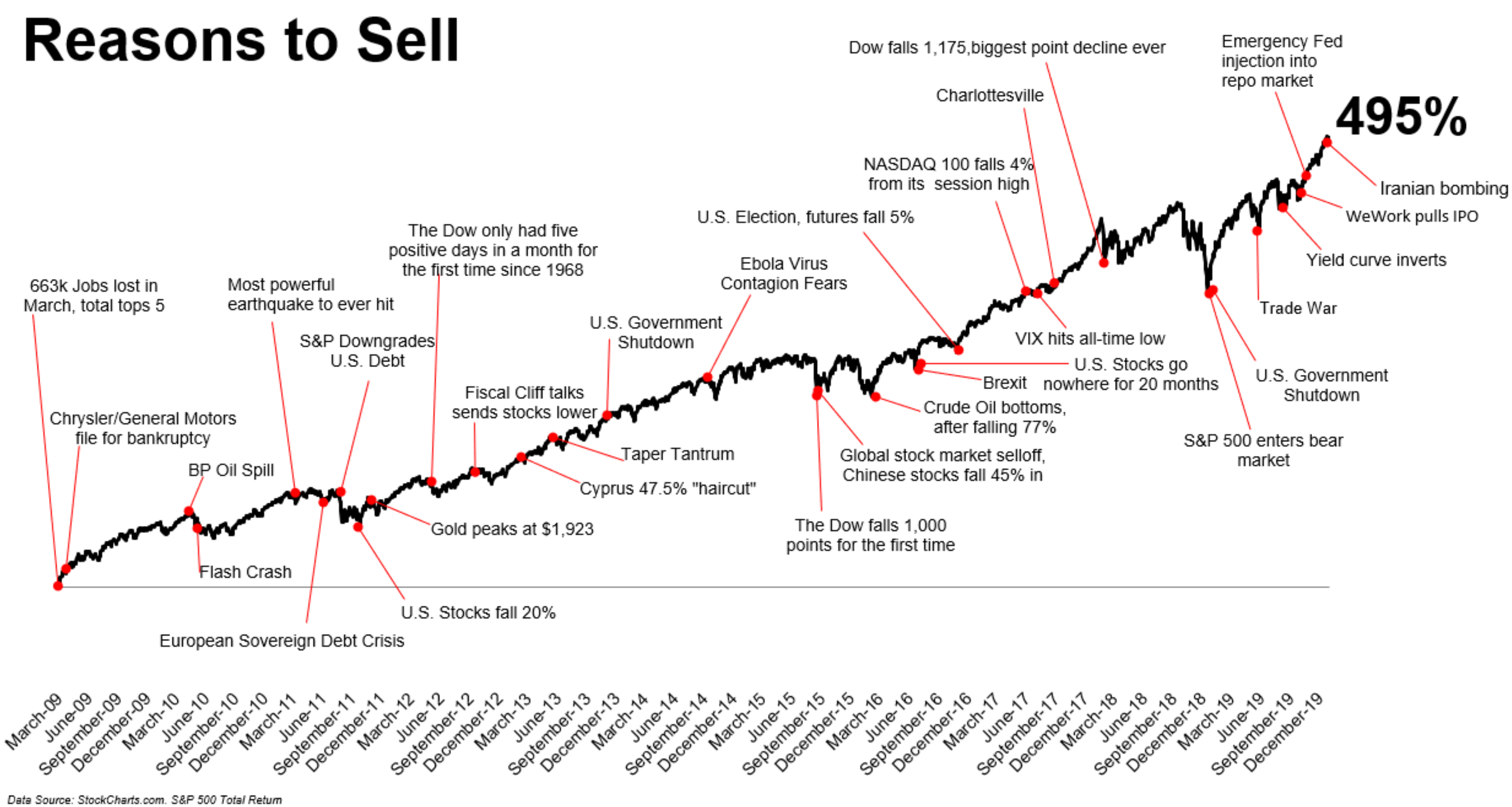
Many investors are asking whether the economic implications of the coronavirus could produce a prolonged bear market for equity markets.

Market Correction *10-19% Decline from Peak*		**Bear Market** *Greater than 20% Decline from Peak*	
26	*Occurrences since World War II*	12	*Occurrences since World War II*
-13.7%	*Average decline since World War II*	-32.5%	*Average decline since World War II*
4 Months	*Average time for the index to recoup losses*	24 Months	*Average time for the index to recoup losses*
7	*Number of times the S&P 500 Index has experienced a correction during the current 11-year bull run for U.S. stocks*	4 Years	*Amount of time for the S&P 500 Index to recover from the Financial Crisis low (March 2009) to surpass the previous 2007 high*

Above-cited figures are for the S&P 500 Index. Sources: CNBC Research, CFRA Research

CLIMBING THE 10-YEAR WALL OF WORRY

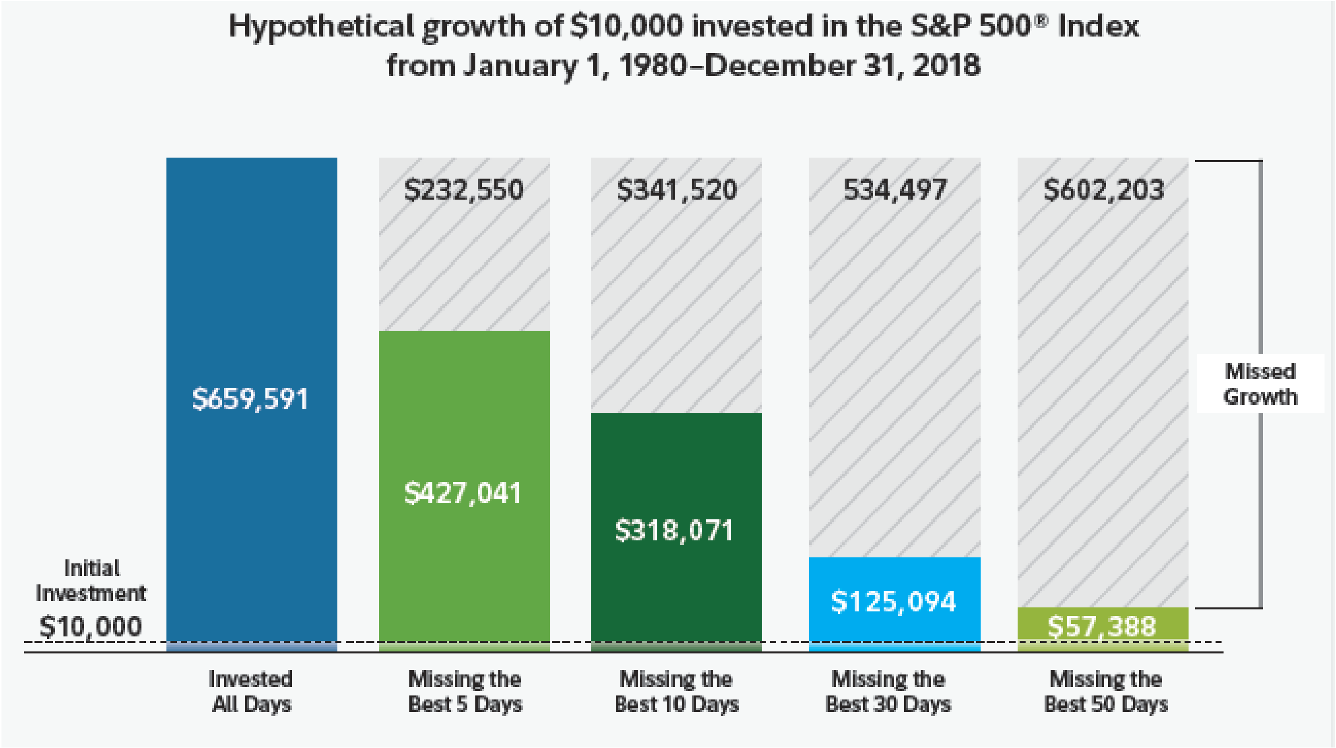
There have been numerous events over the past 10+ years that would have suggested a possible end to the sustained bull market.



Past performance does not indicate future performance.

MANAGING MARKET VOLATILITY

Some of the market's best days occur in heightened uncertainty; missing out on a significant recovery can have a meaningful impact on longer-term returns.



- *Source: Fidelity Investments, Bloomberg.*

"Far more money has been lost by investors preparing for corrections, or trying to anticipate corrections, than has been lost in corrections themselves." – Peter Lynch

PRACTICAL CONSIDERATIONS

1. Revisit Your *Three Levers*

- Consider the risks you are taking and why you are taking them. For nearly all investors, longer-term objectives are only possible if taking an appropriate level of risk.

2. Maintain a Longer-Term Mindset

- Don't let recent market volatility convince you to abandon a prudently designed, long-term investment plan. Short-term, reactive decisions can significantly impair portfolio returns.

3. Deploy *a Portion* of Excess Cash Reserves

- For investors with excess cash reserves, consider investing *a portion* while markets are trading at more favorable levels. Create a plan to systematically put cash to work over a series of tranches. Accept the fact that no one can regularly "time the market."

4. Thoughtfully Rebalance Over Time

- Monitor your portfolio's allocation and thoughtfully rebalance back to targets if the portfolio's current allocation materially deviates from its target allocation.

5. Harvest Losses Where Available

- Taxable investors should consider using market pullbacks as an opportunity to harvest losses. Replace sold positions with a similar – but not identical – fund to maintain similar portfolio exposures.

QUESTIONS? WE'RE HERE TO HELP.

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If you have questions about the topics covered in this material, please reach out to us directly at (770) 368-9919, or email Cliff at cliff@cwoconner.com or Kevin at kevin@cwoconner.com.

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