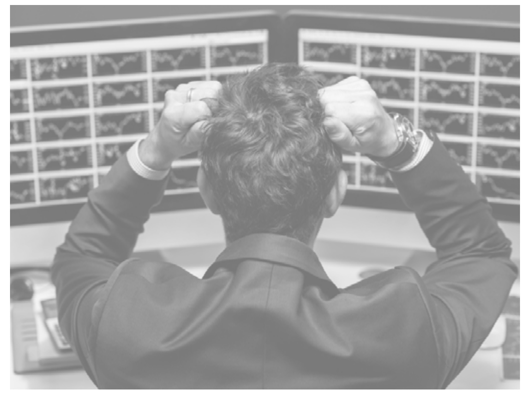
Lessons from Market History:

HOW TO CAPITALIZE ON VOLATILITY

Truepoint
WEALTH COUNSEL

Retreat, Ride It Out or Rebalance?

WHEN EXTREME EVENTS DOMINATE THE NEWS, MANY INVESTORS' FIRST INSTINCT IS PANIC. THE FEARS OF A CATASTROPHIC MARKET CRASH RUN DEEP.



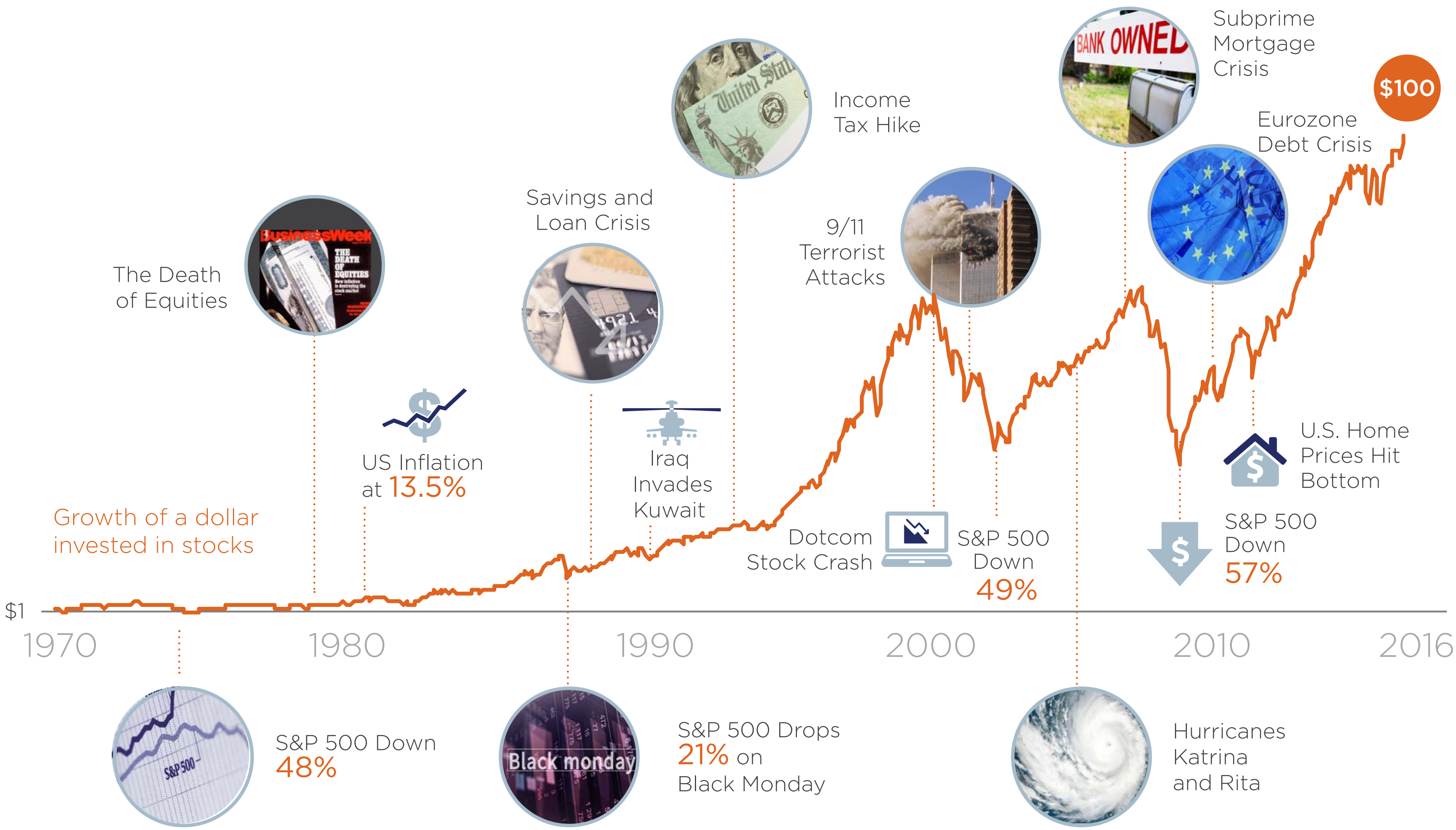
While there are often short-term consequences to these volatile events, reducing stock exposure has proven to be a costly mistake for long-term investors.

In fact, rebalancing portfolios, harvesting losses in taxable accounts and making other moves during a market crisis can deliver tangible and significant long-term benefits.

> 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

Taking the Long View

History shows the value of staying the course in the face of crisis.



Growth of a dollar, S&P 500 Index (dividends reinvested), 1970-2016

Black Monday: Market Crash of 1987

THE LARGEST ONE-DAY STOCK MARKET DECLINE IN HISTORY.

In August 1987, the stock market was looking great, up 44% from the previous year. The economy was strong and investors were happy. Unfortunately, that peak soon turned to panic on Monday, October 19, as the stock market fell 20.5% in a single trading day.

“Black Monday” is notable in that there wasn’t a single cause of the sell-off. Instead, multiple factors are blamed for the panic including program trading, valuation, liquidity and investor psychology. As the Federal Reserve intervened, investors came to their senses and the market recovered nearly half its losses in a few days. It was a classic case of short-term, panic selling.

Initial Decline: -20.5%

Full Decline: -31.5%

Time to Recover Losses: 20 months

Cumulative Gain Since Event: 1,832%

Cumulative gains based on reinvestment of the dividends

September 11 Terrorist Attacks: 2001

THE SEPTEMBER 11 TERRORIST ATTACKS WERE THE WORST IN U.S. HISTORY.

As a direct result of the attacks of September 11, the NYSE and Nasdaq did not open for trading that morning and remained closed for four days. The impact was the longest closure since the Great Depression, and the market lost an estimated value of $1.4 trillion.

The attacks, and the panic selling that followed, exacerbated the ongoing recession. However, only a few months after the attacks, the markets roared back to rise above pre-9/11 levels.

Initial Decline: -4.9%

Full Decline: -11.6%

Time to Recover Losses: 1 month

Cumulative Gain Since Event: 236%

Cumulative gains based on reinvestment of the dividends

Global Financial Crisis: 2007-2009

TURMOIL IN THE U.S. HOUSING MARKET TRIGGERED THE MOST SEVERE FINANCIAL CRISIS SINCE THE GREAT DEPRESSION.

Falling prices in the U.S. housing market triggered a wave of defaults that froze global credit markets. Without access to funding, many companies declared bankruptcy, including some of the most prominent financial institutions in the world. Panic spread from Wall Street to Main Street as investors watched the value of their homes and investment portfolios fall substantially.

Despite much uncertainty and panic, the stock market hit a bottom in March 2009 after nearly 15 months of recession. The stock market then produced enormous gains, posting the second longest bull market in U.S. history.

Initial Decline: -15.8%

Full Decline: -55.3%

Time to Recover Losses: 49 months

Cumulative Gain Since Event: 320%

Cumulative gains based on reinvestment of the dividends

So What Should You Do When Disaster Strikes?

4 Steps to Capitalize on the Opportunity

1. Rebalance the portfolio
2. Harvest losses in taxable accounts
3. Accelerate plans to invest cash held outside the portfolio
4. Convert to a Roth IRA from a Traditional IRA

Crisis Action Plan: 4 Steps to Consider

1 Disciplined rebalancing adds real value

Financial markets have historically exhibited mean reversion, which means asset classes with negative performance in one period are likely to experience higher returns in future periods. Studies have shown opportunistic rebalancing can increase long-term returns by more than 0.50% annually.

2 Tax-loss harvesting meaningfully improves after-tax returns

If you have a taxable account, investments at a loss relative to their purchase price are candidates for tax-loss harvesting. By selling investments at a loss and simultaneously buying similar investments to maintain your portfolio exposure, we can generate taxable losses, which ultimately reduce your tax liability.

Truepoint's investment team continuously monitors client portfolios for rebalancing and tax-loss harvesting opportunities.

Crisis Action Plan: 4 Steps to Consider

3 Accelerate plans to invest cash held outside the portfolio

If you've been waiting for a good time to invest or are simply continuing a periodic deposit plan, accelerating purchases during periods of volatility can be a great idea. It's impossible to time the market, but executing a dollar cost averaging strategy during these periods of volatility is a great way to get invested while taking advantage of fear in the market.

> "Be fearful when others are greedy and greedy when others are fearful."
>
> \- Warren Buffett

4 Consider a Roth IRA conversion from a Traditional IRA

Anyone may convert an existing Traditional IRA to a Roth IRA. If it makes sense from a financial planning perspective, then timing this conversion to coincide with market declines can save you money at tax time.

If you hold a Traditional IRA and the account value declines, the tax cost of conversion drops as well. You can take advantage of short-term price movements to pay less tax today and no tax in the future.

The Evidence is Clear

Permanent loss in a well-diversified stock portfolio is always a result of investor behavior: history confirms that all the stock market's sickening declines are temporary, and temporary declines can never become permanent losses unless the investor panics and sells.

This makes behavior the dominant factor in investing. Success requires tuning out the daily noise and viewing market disruptions as an opportunity. The four steps outlined here position patient investors to be rewarded when markets return to their historical upward trajectory.

We are here when you need to talk or have questions about what's in the news. Our role is to help our clients not only weather these inevitable storms, but capitalize on them.

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Schedule time to talk to an advisor today. >