March 1, 2020

To Our Clients:

With Friday's market decline, the S&P 500 has fallen 11% in a week, wiping out all of this year's gains and taking us back to the levels of last autumn. Many of our favorite businesses, and ones we know many of you own along with us, are down even more than that. As fellow investors, we feel it with you.

We feel the euphoria when stocks rally like they did in 2019 (and for most of the past decade). And we feel the uncertainty — the emotional tug — when they fall 10% or more.

The news about the coronavirus driving the sell-off is fluid and developing. There is much we don't know about the virus itself and how it spreads, but we do know that many companies have said that it will cause near-term disruptions and slowdowns. The CDC has indicated that the coronavirus could continue to spread across the globe and within the US. There will almost certainly be continued negative economic impacts, but we cannot estimate the magnitude.

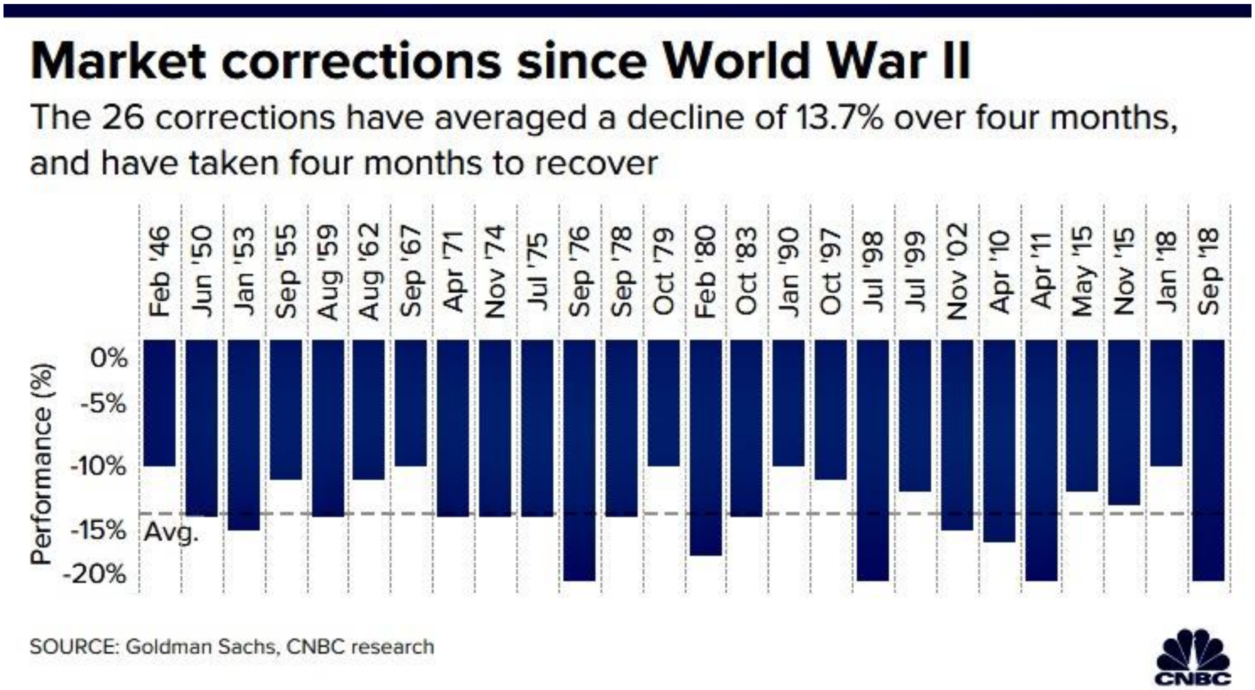
As with any pandemic, we must take the coronavirus seriously. *However, it's a safe bet that much of the media coverage is overblown.* In all likelihood, the regular, old seasonal flu is still a much bigger risk to the average American than coronavirus and the regular, old rules of prevention still apply… wash your hands, exercise, eat right, and get some sleep.

With this much uncertainty in the air, driven by headlines, stories, and our own fast-spreading fears, stocks are showing some wariness, especially coming off a booming 2019. Human nature can be dangerous when people cannot quantify things. The first reaction is to sell first and figure things out later. History tells us that is NOT the way *for investors* to deal with market gyrations and market corrections.

It's essential to keep perspective about normal market behavior.

During a single day, it's a coin toss whether your stock goes up or down. Over a year, the odds improve so that two-thirds of the time you'll win. Stretch that out to three or five or 10 years, and your chances to make money skyrocket. In fact, in almost 9 times out of 10 over the past 100 years, stocks make you money over any 10-year period.

The stock markets drop 10% or more about once per year and 15% or more about once every 4 years. Our last correction occurred in December 2018 (about 14 months ago) and the market has surged since then. Stock markets never go up all the time, but they certainly don't always go down either. On average, the stock market rises about 3 times as often as it falls. **<u>And market rebounds tend to happen quickly</u>**. *The average time it takes for the stock market to recover from a correction is 4 months.* Back in December 2018, the market reached a new high by April 2019. This is all *very normal* market behavior.



Another important reminder… staying committed to your investment plan can mean the difference between the success and failure of your finances, especially later in life. Panicked selling in the midst of a market downturn can set you back years on your investment journey. Stopping market losses in the short-term no doubt feels good to your "present" self, but your "future" self might not be so happy.

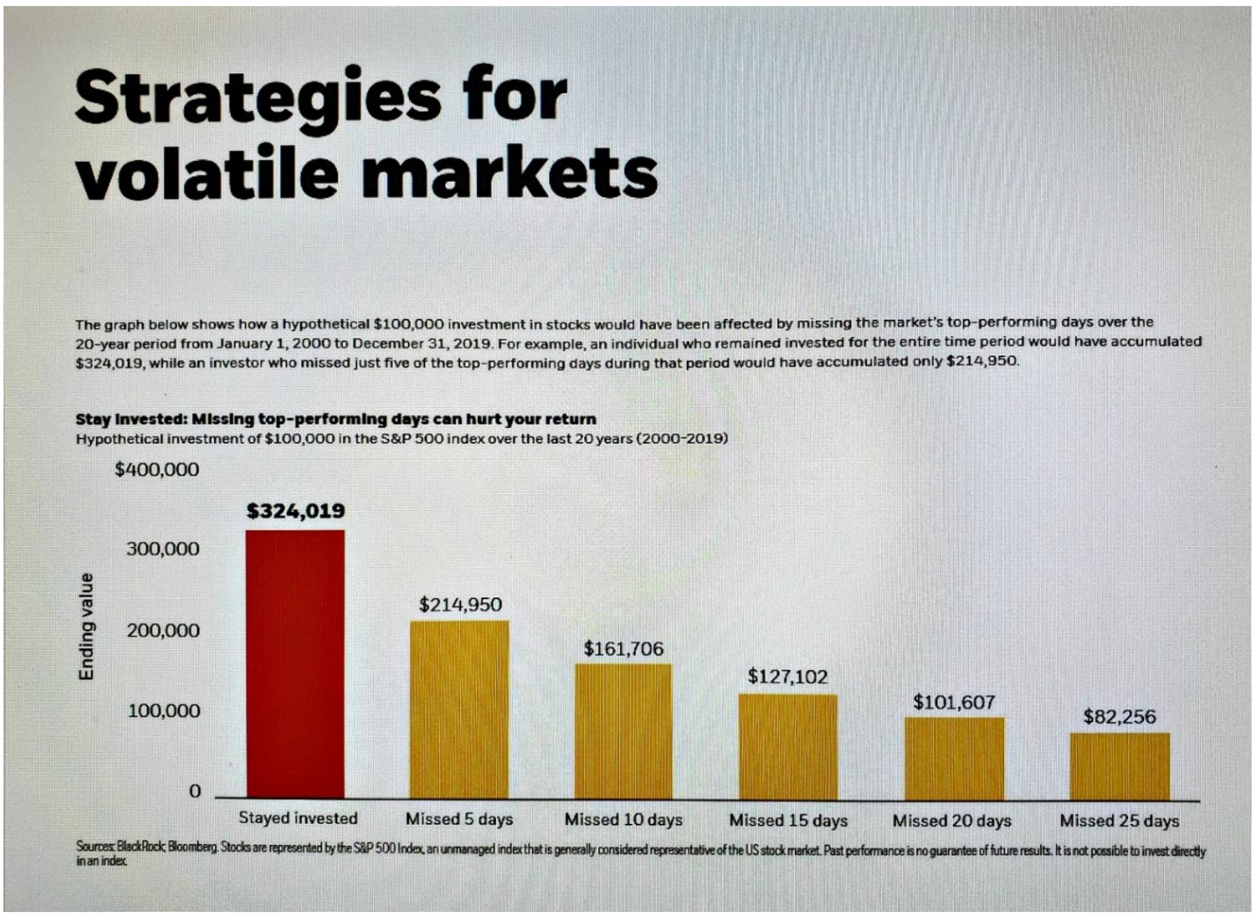
People tend to focus on market risk and forget about inflation risk: the risk that your cost of living will erode your investment assets.

On one hand, you have market risk, or the risk of loss to the value of your investment portfolio. On the other hand, you have inflation risk, or the risk that your dollars today won't purchase as much in the future. By investing in equities and taking on more market risk, you are generally reducing your exposure to inflation risk as the value of your investments will outgrow inflation. However, the opposite is also true. By reducing equity exposure and market risk and holding more cash or fixed income securities, the purchasing power of your portfolio can be whittled down by inflation year after year. *Market risk is often most real in the short-term, while inflation risk is most real over the long-term.* Balancing these risks is a key component of any successful investment strategy.

“In the financial markets, hindsight is forever 20/20, but foresight is legally blind. And thus, for most investors, market timing is a practical and emotional impossibility.” Benjamin Graham.

The last reminder as illustrated by the chart below involves market timing. No one can time the market, and that sentiment comes from some of the greatest investors in history. We seek to maximize time in the market for our Clients, not timing of the market. On any given day, the performance of the stock market comes down to a coin flip. However, on any given 10-year period the markets go up around 90% of the time. We like those long-term odds better, so we’ll choose to play the game on a long-term basis. Only liars manage to be out of the market during bad times and in during the good times.

Keep in mind that more than half of the market's best days come within just a few weeks of its worst.



It takes courage to hold on and keep investing in turbulent markets. We're here to help you find and maintain that courage. History proves that it pays off in the long run.