EFC WEALTH MANAGEMENT FIRM

"Helping You Turn Your Dreams Into Reality"

RIDING MARKET HIGHS

TAKE ACTION NOW TO HELP PROTECT AGAINST FUTURE MARKET VOLATILITY


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KEY TAKEAWAYS

- ✓ Markets rebounded significantly after their sudden plunge in February and March of 2020 — reminding investors of the importance of focusing on long-term goals instead of short-term events.

- ✓ Investors can get caught up in a "let it ride" mentality in times of unchecked market growth. However, it's just as important to keep an eye on the big picture in good times as it is in bad.

- ✓ We cannot predict when the market will drop or how far it will fall. Investors should take steps to position their portfolios against potential risk during times of growth.

THE RISE & FALL OF MARKETS

Fact: Future volatility could be one of the biggest threats to your portfolio. Logically, we all know that market growth is not permanent – and history shows us that what gœs up will come down. We also know that a well-balanced portfolio can often be our best defense against future market drops. But when markets are soaring, it can be challenging to sacrifice near-term gains for better overall long-term results.

Following the Great Recession of 2008-2009, markets enjoyed eight years of incredible growth and low volatility. The relative calm lulled many investors into a false sense of security, with many forgetting the pain of losses they experienced less than a decade earlier.

Some investors were jolted awake in 2018 when volatility reared its ugly head. However, many chose not to heed the reminder that markets can drop unexpectedly – and were unprepared and unprotected against the fastest 30% sell-off ever in February-March 2020 in the early days of the COVID-19 pandemic.[1]

Markets roared back in the year following the drop, pushed upward by optimism around vaccines, stimulus packages and a reopening economy. But **we must not forget the hard lessons learned** and take steps now to help protect against potential future downturns.

S&P 500 PERFORMANCE

Jan. 1, 2020 – March 23, 2021

Source: Morningstar. "S&P 500 PR." https://www.morningstar.com/indexes/spi/spx/performance. Accessed March 23, 2021.

HISTORY LESSONS

The decade-long bull market of the 2010s eased the pain that many investors felt in the 2008-09 financial crisis. Reality came crashing back in early 2020, as COVID-19 spread globally and markets plummeted in response.

The downturn left investors stunned and searching for reassurance that everything would eventually be OK. Fortunately, that reassurance is easy to find: A quick glance at the history of the U.S. stock market provides us with **three reminders about the true nature of investing.**

1. VOLATILITY IS NOT NEW.

Between 1980 and 2018, we experienced 13 market corrections (a market pullback of 10% to 20%).[2] That's an average of one correction every 2.9 years.

However, in that same period, the S&P 500 index posted an average return of 12.65%.[3] That average includes the years we experienced corrections related to significant global and domestic events.

The takeaway here is that market highs have been followed by market drops – and they will do so again. And while some recoveries take longer than others, history shows us that markets generally recover from a correction in four months on average.[4]

2. MARKETS HAVE WEATHERED NUMEROUS CRISES IN THE PAST.

The coronavirus pandemic is unprecedented in its global reach and effect on both human life and economies. However, markets – like people – are resilient and often come back from adverse events with renewed optimism. Consider some of the events affecting the U.S. stock since 1987:

- Oct. 19, 1987 – The stock market crashes on "Black Monday"
- 1990-91 – Iraq invades Kuwait, eventually leading to U.S. involvement
- 2000 – The tech bubble bursts
- Sept. 11, 2001 – Terrorists attack the World Trade Center and other sites on U.S. soil
- March 20, 2003 – The U.S. leads an invasion into Iraq to start the Iraq War
- 2008-09 – A global financial crisis hits hard for individuals and businesses
- 2018 – A trade war begins between the U.S. and China
- 2020 – The coronavirus pandemic shuts down economies worldwide

3. TIMING THE MARKET DOES NOT WORK. *TIME IN* THE MARKET DOES.

The adage of "buy low, sell high" often leads investors to think they can "time" the market. But if you've been investing for any amount of time, you know it's nearly impossible to anticipate precisely when markets are at their highest high or lowest low. You might be able to buy or sell at the exact right time once, but the odds of replicating such success are incredibly low. Investors who try to anticipate market highs and think they can "get out" before the market drops could be setting themselves up for potential disaster.

Instead, the more prudent approach is to utilize strategies that help protect your hard-earned assets and soften the blow of future market downturns.

A PRUDENT APPROACH TO MARKET HIGHS

While it's tempting to aggressively pursue growth during market highs, savvy investors know that balance is the key to long-term success. We recommend taking these steps to help protect against future market volatility:

- ✓ **REBALANCE.** Have your circumstances changed? Do you have the same appetite for risk – or did past market drops create anxiety and fear about your future? Check in with your financial professional to make sure your portfolio is diversified and balanced to fit your goals and risk tolerance.

- ✓ **REFOCUS.** It's easy to get distracted from long-term goals when markets are soaring. But now is not the time to lose focus. Work with your financial professional to determine planning opportunities that may be available and beneficial for your future.

- ✓ **REAFFIRM.** You chose and established your long-term goals for a reason. Do they still work for you? Does your financial plan still match and move you toward those goals? Your financial professional can help you review and adjust your financial plan to make sure it still works for your life.

DON'T GET CAUGHT UNPREPARED FOR ANOTHER MARKET DROP.

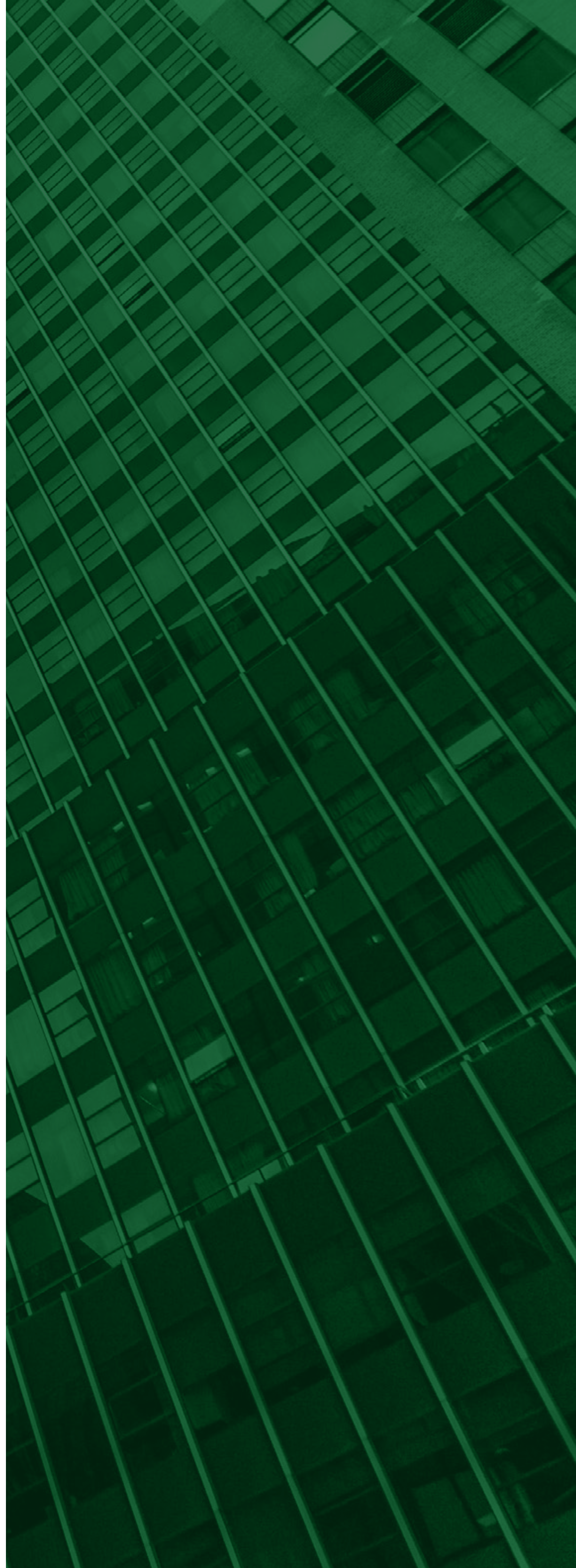
If you're concerned about future market volatility and how it could impact you, contact us for a complimentary consultation. We can help you devise a strategy to navigate potential uncertainty in the markets and make sure you're still on track to realize your financial goals.

[1] Yun Li. CNBC. March 23, 2020. "This was the fastest 30% sell-off ever, exceeding the pace of declines during the Great Depression." https://www.cnbc.com/2020/03/23/this-was-the-fastest-30percent-stock-market-decline-ever.html. Accessed March 23, 2021.

[2] Thomas Franck. CNBC. Feb. 27, 2020. "Here's how long stock market corrections last and how bad they can get." https://www.cnbc.com/2020/02/27/heres-how-long-stock-market-corrections-last-and-how-bad-they-can-get.html. Accessed March 29, 2021.

[3] Thomas Kenny. The Balance. Nov. 18, 2020. "Aggregate Bond Index Returns vs. Stocks '80-'18." https://www.thebalance.com/stocks-and-bonds-calendar-year-performance-417028. Accessed March 29, 2021.

[4] Thomas Franck. CNBC. Feb. 27, 2020. "Here's how long stock market corrections last and how bad they can get." https://www.cnbc.com/2020/02/27/heres-how-long-stock-market-corrections-last-and-how-bad-they-can-get.html. Accessed March 29, 2021.



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