THE PACIFIC FINANCIAL GROUP

Market Insights

Breaking news, insights and analysis to help enable informed, data-driven decision-making.

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Strategies for Retirement Investing During a Crisis

The outbreak of the COVID-19 virus, along with the subsequent economic impact and market correction is a cause of concern for all of us. When it comes to dealing with the virus itself, we encourage everyone to follow the advice and recommendations of health care professionals. As investment professionals, we can provide insights regarding the economy and markets. We would like to share a framework for managing your retirement savings during a crisis.

1

FOCUS on the BIG PICTURE

Stay focused on the long term

Don't focus on extreme scenarios

Stay the course and don't panic

2

MAINTAIN or INCREASE Retirement Plan Contributions

Regular savings is crucial

Increased contributions is advantageous

Avoid suspending Contributions or Withdraws

3

TAKE ADVANTAGE of Sale Prices

Think of lower valuations as equities on sale

Lower valuations can lead to higher future returns

Regular retirement contributions offer long-term Upside Advantages

4

BALANCE YOUR RISK With Asset Allocation

Use RiskPro® to re-examine your Personal Risk Budget

Use RiskPro® to assure an appropriately diversified portfolio

A longer, balanced view leads to a positive outcome

Focus on the Big Picture

Key Points:

- Stay focused on the long term
- Don't focus on extreme scenarios
- Stay the course & don't panic

Investing for retirement is a long term endeavor. Most individuals begin saving and investing for retirement in their 20's. If you assume a life expectancy of 85, that is a 60-year investment horizon. For perspective, 60 years ago the Dow Jones Industrial Average was at 626, today it is over 19,000. Even if you are close to retirement age, you still have an investment horizon of over 20 years.

The speed and size of the recent correction is unprecedented. It is important not to focus on extreme scenarios, both in really good times and recessions. Equities have moved higher over time despite occasional drawdowns and disruptions to our economy.

It's important to adhere to your financial plan, stay the course and don't panic. This is a stressful time and we are dealing with a wide range of issues. However, we will get through all the challenges we face today just as we have done in the past.

History of U.S. Bear & Bull Markets

1926 – 2019

First Trust

This chart shows historical performance of the S&P 500 Index throughout the U.S. Bull and Bear Markets from 1926 through 2019. Although past performance is no guarantee of future results, we believe looking at the history of the market's expansions and recessions helps to gain a fresh perspective on the benefits of investing for the long-term.

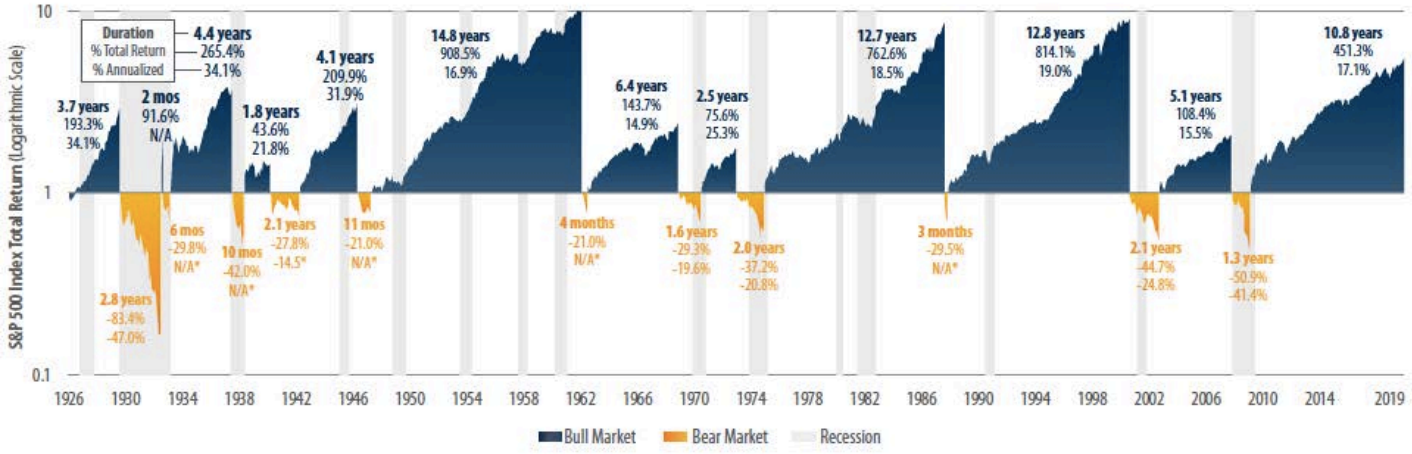
- The average **Bull Market** period lasted 6.6 years with an average cumulative total return of 339%.
- The average **Bear Market** period lasted 1.3 years with an average cumulative loss of -38%.

BULL

From the lowest close reached after the market has fallen 20% or more, to the next market high.

BEAR

From when the index closes at least 20% down from its previous high close, through the lowest close reached after it has fallen 20% or more.



Source: First Trust Advisors L.P., Bloomberg. Returns from 1926 - 2019. *Not applicable since duration is less than one year.

These results are based on monthly returns—returns using different periods would produce different results. The S&P 500 Index is an unmanaged index of 500 stocks used to measure large-cap U.S. stock market performance. Investors cannot invest directly in an index. Index returns do not reflect any fees, expenses, or sales charges. This chart is for illustrative purposes only and not indicative of any actual investment. These returns were the result of certain market factors and events which may not be repeated in the future. Past performance is no guarantee of future results. The information presented is not intended to constitute an investment recommendation for, or advice to, any specific person. By providing this information, First Trust is not undertaking to give advice in any fiduciary capacity within the meaning of ERISA, the Internal Revenue Code or any other regulatory framework. Financial advisors are responsible for evaluating investment risks independently and for exercising independent judgment in determining whether investments are appropriate for their clients.

Maintain or Increase Retirement Plan Contributions

Key Points:

- Regular saving is crucial
- Increasing contributions is advantageous
- Avoid suspending Contributions or Withdraws

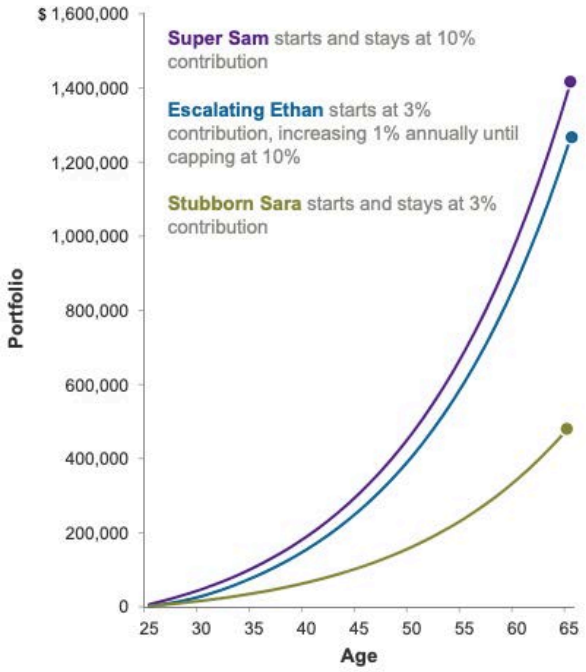
One of the keys to building wealth for funding retirement is regular savings and investing. As an investor, it is important to focus on things you can control. The first thing you can decide is the amount you are going to save. We have no control over market returns, interest rates or fiscal policy. If you commit to regular savings you will gain an advantage to achieving long term goals. If you are able to increase the amount you save the advantage is even larger.

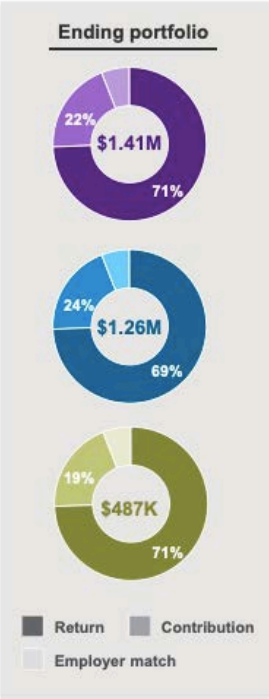
The virus may put a strain on your financial situation but we strongly encourage you to continue to save for retirement. During 2008 some investors stopped contributing to their retirement plans and never started again, missing a crucial decade of compounding. Studies show that if you miss even just a few of the best days, it can have a dramatic impact on your long term returns.

Some retirement plans offer withdrawal options. We would strongly discourage using these options unless absolutely necessary. These withdrawals may be subject to taxes & penalties. You also miss out on crucial compounding.

The benefits of auto-escalation | 47

Account growth of auto-escalate vs. a static contribution





MODEL ASSUMPTIONS

Start age: **25**

Retirement age: **65**

Starting wages: **$50,000**

Wage growth: **2.0%**

Assumed annual employer match: **50% of contribution, capped at 3%**

Investment return: **6.0%**

Individual is assumed to retire at the end of age 65. Growth of portfolio is tax deferred; ending portfolio may be subject to tax. The above example is for illustrative purposes only and not indicative of any investment.

Source: J.P. Morgan Asset Management, Long-Term Capital Market Assumptions.

J.P.Morgan Asset Management

Take Advantage of Sale Prices

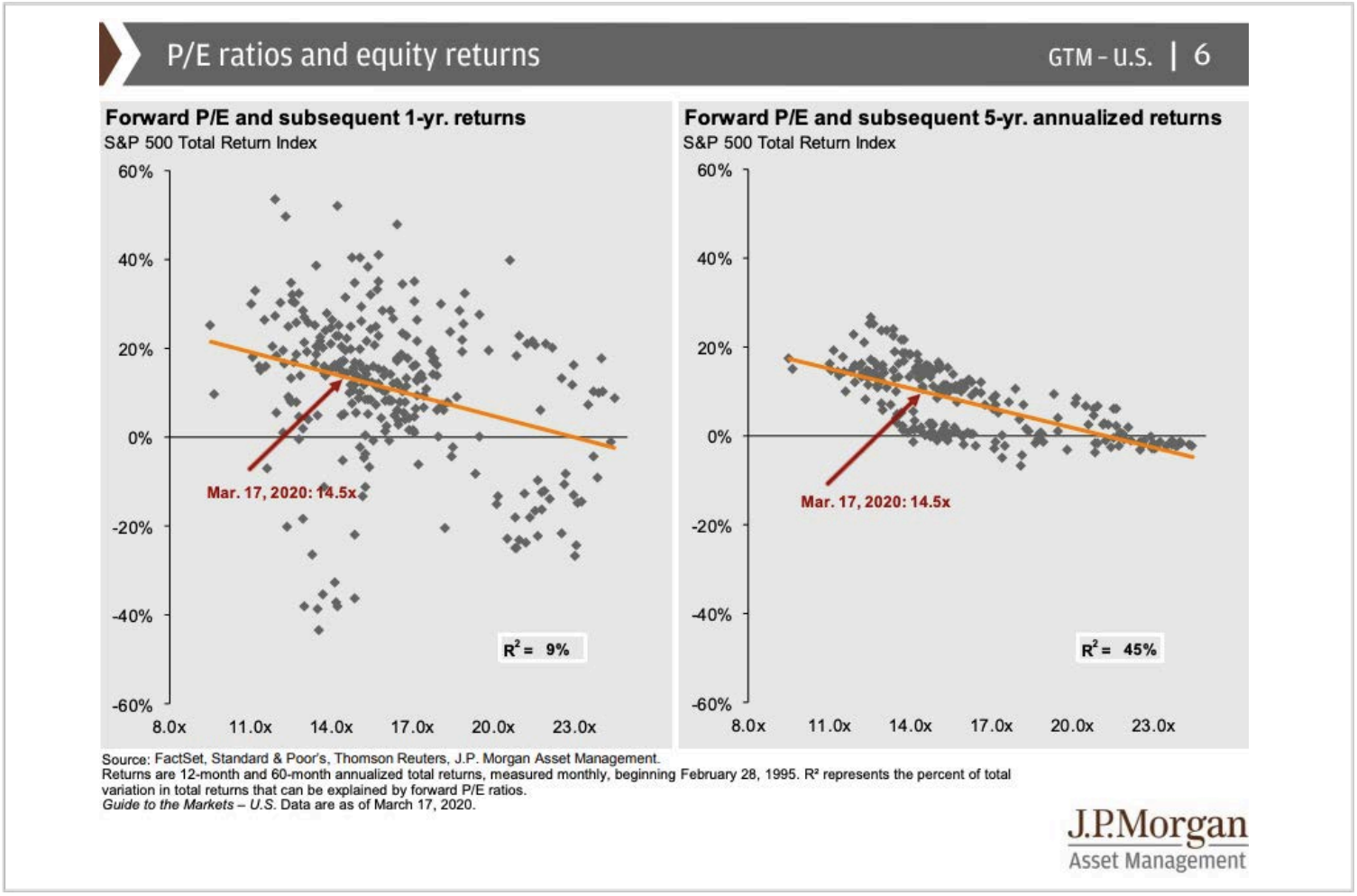
Key Points:

- Think of lower valuations as equities on sale
- Lower valuations can lead to higher future returns
- Regular retirement contributions offer long-term Upside Advantages

One basic framework for stock valuations is the Price/Earnings (P/E) multiple. This gives us insight into what multiple investors are willing to pay for future cash flows. A higher multiple generally means investors are willing to pay more for those earnings. Over the past month, we have seen a reduction in P/E multiples.

This is important because research as shown valuations have an impact on future returns. In good times, investors tend to overestimate earnings growth and valuations increase. In times of uncertainty, investors tend to underestimate earnings growth and valuations decline. Lower valuations generally lead to stronger future returns. Earnings growth tends to improve more than expected as the economy improves. Investors are then willing to pay a higher multiple for improving earnings. This combination drives returns.

Valuations for stocks have declined sharply over the past month presenting an opportunity for long term investors. In contrast, bond valuations, driven by yields, have increased substantially creating a headwind to future returns.



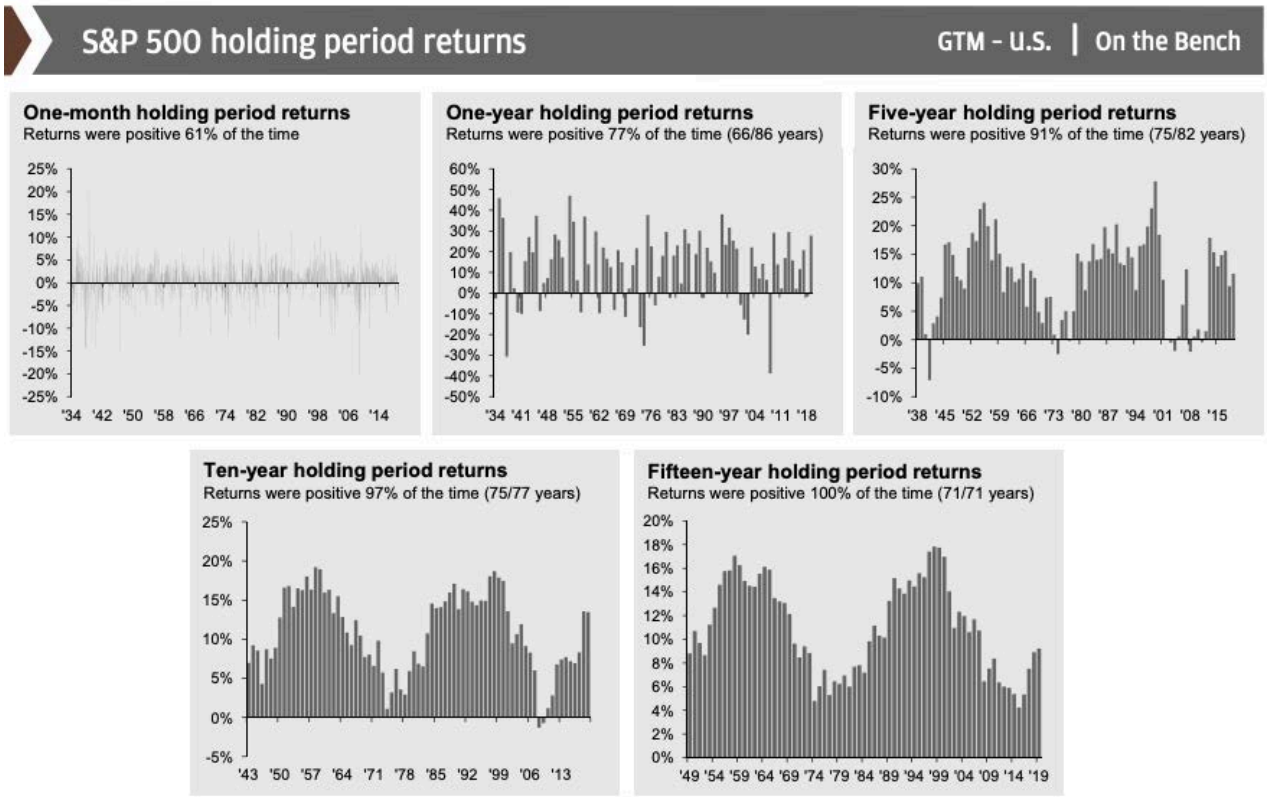
Balance Your Risk

Key Points:

- Use RiskPro® to re-examine your Personal Risk Budget
- Use RiskPro® to assure an appropriately diversified portfolio
- A longer balanced view leads to a positive outcome

Another decision you can control is how much you have invested in stocks and bonds, your asset allocation. This will play a large part in determining your returns. Asset allocation decisions should be made with a long term focus, aligning your goals with your willingness and capacity to take risk. To help investors feel more comfortable with the risk associated with their asset allocation choices, we recommend using RiskPro®, our leading-edge risk profiling and portfolio construction system. In clear and understandable terms, RiskPro® empowers advisors to help their clients pinpoint their own Personal Risk Budget™. RiskPro® monitors accounts daily, notifying advisors should an investor portfolio fall out of the acceptable risk tolerance range.

It is important to review your asset allocation with your advisor periodically. Considering the recent market activity it might be prudent to rebalance your portfolio or adjust the allocation given future expectations. It is also important to analyze your asset allocation in terms of long term performance. The longer time horizon, the lower chance there is of a negative return. You will see in the chart, there have been no negative returns in the S&P 500 for a 15 year holding period.



Source: FactSet, Robert Shiller, J.P. Morgan Asset Management.
Returns reflect S&P 500 annual rolling period total returns except for one-month returns which are price returns and do not include dividends.
Represents period from 12/31/1933-12/31/2019. Charts are for illustrative purposes only. Past performance is not indicative of future returns.
Guide to the Markets – U.S. Data are as of December 31, 2019.

J.P.Morgan
Asset Management

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Risk of Loss: Past performance presented does not necessarily give an indication of future returns. Client performance can be lower or higher than what is stated.

Investing in any security involves a risk of loss.

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