RETIREMENT PLAN MARKET UPDATE

Current Issues and Trends for
Retirement Plan Participants

FAIRCOURT

In like a lion, out like a…bear?

DID MARCH JUST KILL THE LONGEST BULL RUN IN HISTORY?

If you've been keeping up with the financial news, you are by now well aware that markets have had a wild ride to start the month—culminating this morning with the 18% drop in the S&P 500 (the stock index that tracks the 500 largest companies in the US). The outbreak of COVID-19, the presidential election in the US, and a precipitous drop in oil prices following a dramatic OPEC meeting have created something of a "perfect storm," stoking fears of a global economic slowdown as investors struggle to read the tea leaves in an increasingly uncertain environment.

SIGNAL OR NOISE?

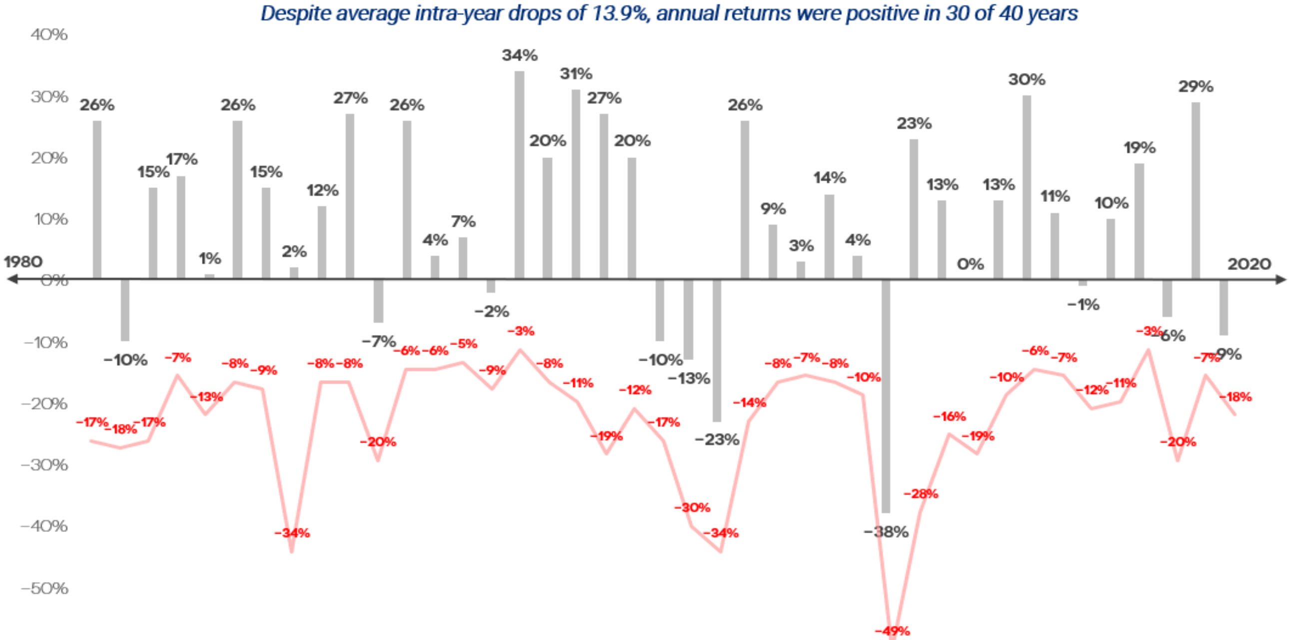
When global markets get this volatile, it is essential to remember that ***the stock market is not the economy***. The stock market is a pricing mechanism for future economic opportunity. The economy **is** that future opportunity. In other words, the stock market is an information-aggregator that places a dollar value on the following question: what does the average investor believe a company is worth, based on expected future operating conditions? The economy, in contrast, defines those actual operating conditions.

Why is this distinction so important? If the stock market is simply an information aggregator about the prospects of future economic conditions—a prediction machine, if you will—*sometimes it is going to make bad or misleading predictions*. The upshot? Sometimes market volatility is a signal, and sometimes market volatility is just noise. Our job as investors is to attempt to differentiate between the two: do falling markets mean future economic operating conditions are truly going to be bad, or are we experiencing the "human" element of this prediction machine—i.e. the reality that people are scared, the future is uncertain, and these emotions are creating price movement that is either unrelated to, or excessively amplified by, the actual economic "facts on the ground?"

Investing involves accepting that you will only know this answer for certain in hindsight. It's the reason behind the ubiquity of the oft-quoted tagline: past performance does not indicate future results. What we *can* say for certain, however, is that 1) the US consumer, the economic "engine" of the economy, continues to look healthy, and 2) the structural weaknesses in the financial system that amplified the last financial crisis in 2008 are either gone or significantly reduced. While the corona virus and its second-order effects (quarantine, production disruption) will certainly depress economic growth in the short term, we have reason to believe that the American economy is still well positioned for the long term.

S&P 500 INTRA-YEAR DECLINES VS CALENDAR YEAR RETURNS

Despite average intra-year drops of 13.9%, annual returns were positive in 30 of 40 years



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WHAT DOES THIS MEAN FOR RETIREMENT SAVERS?

Investment discipline is the name of the game for retirement savers. What the market does is outside of your control. How you react to those moves IS in your control. If you plan to retire in the next 5 years, your portfolio should be relatively conservative. If, however, your timeline is longer, take a look at the chart above and remind yourself you're playing a game of averages. On any given year, the S&P 500 will drop an average of 14%. The key is that—***on average and over time***—you are well compensated for riding out those drops: total annual returns were positive in 30 out of the last 40 years.

The news cycle will not make remaining in equity markets easy or comfortable. But remember that fear sells papers, and that retirement saving requires playing the long game.

Still have questions? Just want to chat? Shoot us an email at questions@faircourtpartners.com, visit our website at www.faircourtpartners.com, or text us at 855-971-1700 (Verizon & ATT&T) / 917-905-4586 (other carriers).