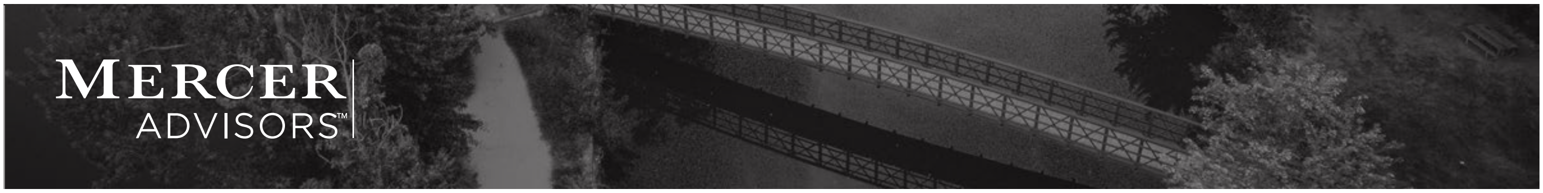

Monday, March 16, 2020

TODAY'S MARKET DECLINE AND WHAT INVESTORS SHOULD DO NOW

At Mercer Advisors, we're committed to keeping you informed on current events and how they relate to your long-term Economic Freedom™. Today, US equity markets experienced their largest daily decline since 1987, with the Dow Jones falling 12.93% and the S&P 500 Index falling 11.98%.

The events of the past several weeks have been disruptive to our financial, social, and economic lives. The virus and concerns around its expected economic impact have erased last year's stellar market gains. With today's market close, the S&P 500 Index has returned -25.8% for the year and -29.43% since its all-time high on February 19, 2020.

Amidst all the negativity, it's important that we breathe, think rationally, and keep perspective. I realize that's difficult, especially when emotions are running high. But it's critically important to the long-term financial security of you and your family. To that end, there are a few things we would like clients and the broader Mercer Advisors community to remember:

Keep market returns in context.
While we're in the throes of a bear market, which is defined as a greater than 20% decline from the market's recent high, it's important for us to remember that bear markets are not new. Depending on how you count them, there have been at least 16 or as many as 25 bear markets since 1926. This works out to about one every 4 to 6 years. The typical bear market lasts an average of about 22 months and averages a loss of 39%. On the plus side, market returns tend to be exceptionally strong in the immediate 1, 3, and 5-year periods following bear markets—averaging about 13% annually.

This is a health crisis, not a financial one.
The catalyst for this crisis was not the bankruptcy of some Wall Street investment bank or obscure hedge fund. It wasn't subprime debt or some energy shock from the other side of the world. But to be safe, the US Federal Reserve Bank cut interest rates to near 0% and announced a new $700 billion "quantitative easing" program to inject liquidity into the financial system to ensure the smooth functioning of capital markets. It's important to remember that credit is flowing, and banks are operating normally. The federal government is also working to rapidly pass a series of economic stimulus bills to ensure a health crisis doesn't become a financial or economic one. What the Feds are hoping to do is to blunt the expected economic impact of the virus.

We must focus on what we can control.
We can't control markets, the economy, or government policy. Instead, we should focus on what we can control; and what we can control is our attitude and how we respond to the situation at hand. To that end, below are several things families should consider doing now that will best serve their long-term financial interests:

- **Stick with your financial plan.** Like most things in life, attitude is everything. A time like this is when people make their worst investing mistakes. According to Dalbar, the average US investor since 1998 has earned a paltry 1.9% annually, less than the rate of inflation. These poor returns are entirely attributable to investors' bad investment behaviors, like trying to time the market. Remember, to quote Warren Buffet, the market transfers wealth from the impatient to the patient. Be patient.

- **Monitor your cash reserves.** It's wise to have suitable cash reserves set aside for emergencies. Your advisor can revisit those reserves and work with you to quantify, monitor, and manage not only your cash reserves, but your entire balance sheet.
- **Put your excess cash to work.** Families with excess cash (more than they need to fund their emergency reserve requirement) should put that cash to work. If you're nervous about market volatility, talk to your advisor about dollar-cost-averaging into the market slowly over time.
- **Revisit your bond allocation.** All portfolios should have allocation to bonds. Bonds provide much needed portfolio diversification, liquidity, and income for equity-heavy portfolios. But not all bonds are created equal. You should meet with your advisor to revisit the quality of the bonds in their portfolio.
- **Explore harvesting tax losses.** Tax losses have a real economic value and can be accrued for use later in life against future capital gains. Alternatively, you can use capital losses now to diversify other positions in your portfolio with unrealized capital gains.
- **Explore doing a Roth IRA conversion.** Now is a great time to discuss with your advisor the benefits of converting depressed Traditional IRA assets into a Roth Conversion IRA.
- **Pre-fund your retirement accounts for the year.** Those of you with qualified plans and IRAs would be wise to put those dollars to work now to be well-positioned for an eventual market recovery.
- **Refinance high-interest debt.** With the feds cutting rates to near zero, the weeks and months ahead will be an opportune time for you to explore refinancing high-interest debt, such as mortgages and lines of credit.

While the bear market rattles nerves and depresses account values, let's remember that every crisis has a beginning, a middle, and an end. This crisis too shall pass. But what won't ever change is our ongoing commitment to partner with you on your path to Economic Freedom™.

Thank you for the trust and confidence you and your family place in Mercer Advisors.

Donald Calcagni,
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