



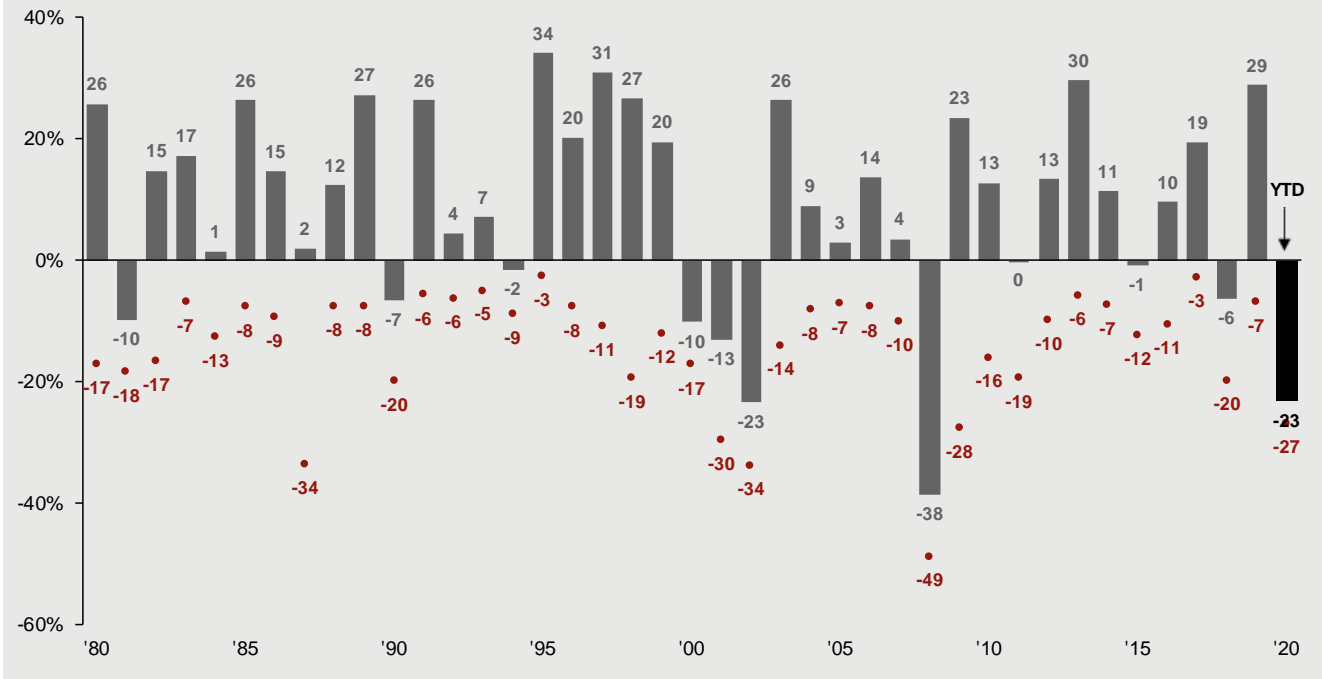
This Too Shall Pass

For the past few weeks newspapers and TV media seem to run on a steady supply of headlines about the coronavirus. These stories are resulting in policy changes to control the spread of illness, as well as concern about the stability of the global economy. As history has shown us many times, the stock market does not like uncertainty, and we are seeing the effects of that over the past few weeks in the form of a decline in prices across the board.

Intra-year declines can even be a sign of a healthy market environment and offer some relief from potential overvaluation or ‘irrational exuberance’ as often seen in past bubbles. The chart below shows the lowest point of the U.S. stock market versus the actual calendar year return. The average drop during the year is about 13%, but the market has been positive in 30 out of the last 40 years.

S&P 500 intra-year declines vs. calendar year returns

Despite average intra-year drops of 13.8%, annual returns positive in 30 of 40 years



Despite our inclination that this is a normal market correction, we have always and will continue to adhere to the academic principles of asset allocation – simply put, we do not invest 100% of a client’s portfolio in the stock market and instead purposefully choose other assets to invest in, like bonds and real estate, along with exposure to U.S. and international stocks. In times of market turmoil, this helps provide balance to the investment portfolio and keeps our clients’ long-term goals in sight.

Source: FactSet, Standard & Poor’s, J.P. Morgan Asset Management. Returns are based on price index only and do not include dividends. Intra-year drops refers to the largest market drops from a peak to a trough during the year. For illustrative purposes only. Returns shown are calendar year returns from 1980 to 2019, over which time period the average annual return was 8.9%.

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