



## Market Volatility

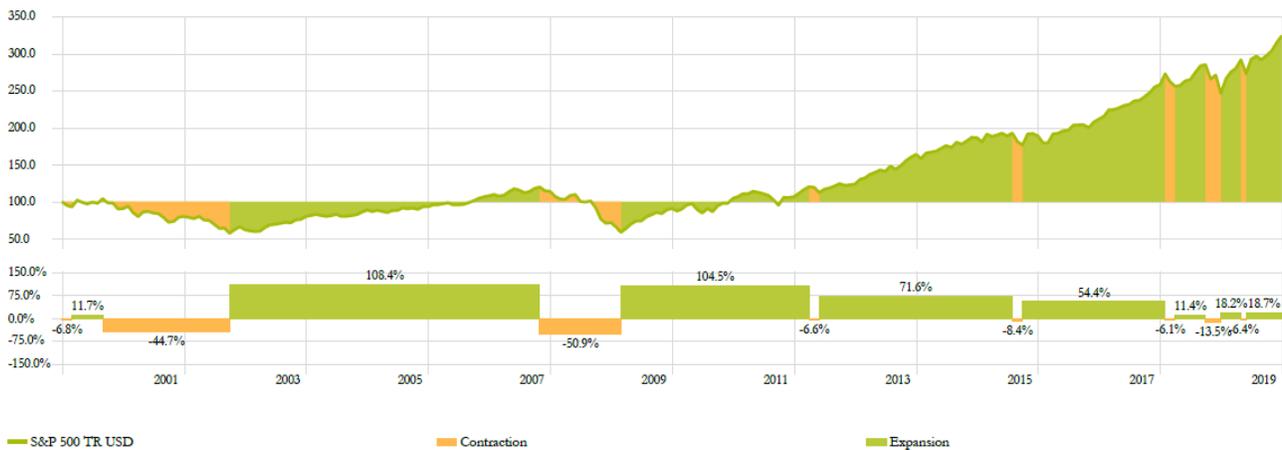
Financial markets are unpredictable and sudden shocks can cause investors to overreact and abandon their long-term investment strategy. It's relatively common for financial markets to experience declines. For example, over the past twenty years, the S&P 500 Index has experienced eight corrections with declines of at least 5%. Historically speaking, these market declines have been relatively short-lived and have been followed by periods of strong market performance. Investors who remained focused on their long-term investment objectives outperformed those who exited their positions.

**Over the past twenty years, the S&P 500 Index has experienced eight corrections with declines of at least 5%.**

### Investment Growth

Time Period: 1/1/2000 to 12/31/2019

Define drawdown as decline by 5% or more



### Diversify and Stay the Course

Many retirement plan participants have long-term horizons. However, even those with shorter time horizons can reduce the likelihood of experiencing negative returns by holding a diversified investment portfolio. The table below evaluates rolling returns for various time periods from 01/1995 to 12/2019 (the time period coincides with the first calendar year in which target date category data is available from Morningstar). The data suggests that those investors who diversify their portfolios have less of a chance of experiencing negative returns over a rolling time period. Moreover, investors who stay the course by remaining invested for longer time periods also have a lower likelihood of negative portfolio performance (even relatively risky portfolios, such as dedicated US or International equity funds, have not experienced negative returns over a rolling 15 year period).

<sup>1</sup> Diversification does not ensure a profit or protect against loss. It is possible to lose money in a diversified portfolio.

**Morningstar Category – Percentage of Rolling Periods with Negative Returns (01/01/1995 – 12/31/2019)**

Morningstar Category	1 Year	3 Year	5 Year	10 Year	15 Year
<b>US Fixed Income</b>					
Intermediate-Term Bond	13%	0%	0%	0%	0%
<b>US Equity</b>					
Large Blend	23%	24%	25%	14%	0%
Large Growth	22%	24%	26%	16%	0%
Large Value	23%	21%	18%	3%	0%
Mid-Cap Blend	26%	16%	5%	0%	0%
Mid-Cap Growth	25%	20%	13%	9%	0%
Mid-Cap Value	23%	11%	5%	9%	0%
Small Blend	27%	12%	8%	0%	0%
Small Growth	27%	18%	13%	3%	0%
Small Value	25%	10%	6%	0%	0%
<b>International Equity</b>					
Foreign Large Blend	34%	29%	25%	4%	0%
Foreign Large Growth	30%	29%	27%	8%	0%
Foreign Large Value	37%	25%	18%	0%	0%
<b>Allocation<sup>2</sup></b>					
Target-Date 2000-2010	18%	9%	2%	0%	0%
Target-Date 2020	22%	19%	5%	2%	0%
Target-Date 2030	24%	20%	8%	3%	0%
Target-Date 2040	25%	20%	19%	6%	0%
Allocation--30% to 50% Equity	18%	5%	2%	0%	0%
Allocation--50% to 70% Equity	21%	17%	3%	1%	0%
Allocation--70% to 85% Equity	25%	19%	8%	2%	0%

Source: Morningstar Direct

<sup>2</sup> Target-Date Funds (TDF) are diversified investment vehicles designed to provide a simpler solution for investors where a portfolio's asset allocation automatically adjusts based on one's age or proximity to retirement. The target date is the approximate date when investors plan to start withdrawing their money. Generally, the asset allocation of each fund will change annually with the asset allocation becoming more conservative as the fund nears the target retirement date. The principal value of a target date funds is not guaranteed at any time, including the target date.

## Chasing Performance

A behavior commonly displayed by plan participants during periods of market volatility is performance chasing--selling recent losers and purchasing recent winners (e.g. replacing 3 star funds with 5 star funds). Historically, this behavior has led to inferior returns. The table below displays the difference between total returns and investor returns for asset classes commonly used in retirement plans. As defined by Morningstar, investor returns are dollar weighted returns that measure the impact of investor behavior (e.g. cash inflows and

outflows). Investors are notorious for making poor decisions regarding the timing of their investment decisions. So much so that, on average, investors have underperformed a simple buy-and-hold approach by at least 0.9%, annualized, over the last 5, 10, and 15-year periods. This underperformance may appear to be mild, however, compounded over a period of time, a 1.00% difference in return has a large impact on portfolio value.

For example, a \$100,000 investment with an annualized return of 5% over thirty years grows to \$432,194. The same \$100,000 investment with an annualized return of 6% would grow to \$574,349 (a difference of 33% or \$142,155). Thus, slight differences in annualized returns have a large compounding effect over time.

### Comparison of Total Returns and Investor Returns (as of 12/31/2019)

Name	Total Ret			Inv Ret			Total Ret			Inv Ret			Total Ret			Inv Ret		
	1 Yr	1 Yr	Inv +/-	3 Yr	3 Yr	Inv +/-	5 Yr	5 Yr	Inv +/-	10 Yr	10 Yr	Inv +/-	15 Yr	15 Yr	Inv +/-			
Intermediate-Term Bond	8.06%	7.06%	-1.00%	3.59%	2.79%	-0.81%	2.72%	1.89%	-0.83%	3.55%	2.71%	-0.84%	3.83%	2.68%	-1.14%			
<b>US Equity</b>																		
Large Blend	28.78%	28.45%	-0.33%	13.26%	12.43%	-0.83%	9.78%	8.63%	-1.15%	12.03%	11.07%	-0.96%	8.13%	6.53%	-1.60%			
Large Growth	31.90%	31.39%	-0.51%	18.09%	17.31%	-0.78%	12.10%	10.35%	-1.74%	13.40%	12.20%	-1.20%	9.30%	7.82%	-1.48%			
Large Value	25.04%	24.65%	-0.39%	9.97%	8.91%	-1.06%	7.99%	6.37%	-1.62%	10.90%	9.79%	-1.11%	7.24%	5.47%	-1.78%			
Mid-Cap Blend	26.21%	26.41%	0.20%	9.15%	8.31%	-0.84%	7.15%	5.56%	-1.59%	11.09%	10.19%	-0.90%	7.68%	6.30%	-1.37%			
Mid-Cap Growth	32.52%	32.08%	-0.45%	15.57%	14.55%	-1.01%	10.45%	8.80%	-1.65%	12.79%	11.59%	-1.19%	9.13%	7.39%	-1.74%			
Mid-Cap Value	25.18%	25.26%	0.09%	7.33%	6.33%	-1.00%	6.90%	5.80%	-1.11%	10.86%	10.02%	-0.84%	7.58%	6.09%	-1.49%			
Small Blend	23.75%	24.18%	0.43%	6.84%	5.70%	-1.14%	7.12%	5.83%	-1.29%	11.17%	9.94%	-1.24%	7.61%	6.27%	-1.34%			
Small Growth	27.68%	28.24%	0.57%	13.66%	12.28%	-1.38%	9.92%	7.62%	-2.30%	12.68%	11.06%	-1.63%	8.81%	6.22%	-2.59%			
Small Value	21.43%	21.13%	-0.30%	3.66%	2.41%	-1.26%	5.40%	3.94%	-1.47%	9.82%	9.08%	-0.73%	6.73%	5.24%	-1.49%			
Foreign Large Blend	21.59%	21.44%	-0.15%	9.09%	8.53%	-0.56%	5.37%	4.56%	-0.81%	5.15%	4.23%	-0.92%	4.75%	2.91%	-1.84%			
Foreign Large Growth	27.83%	27.82%	-0.01%	12.69%	12.01%	-0.68%	7.25%	6.48%	-0.77%	6.90%	6.01%	-0.89%	5.85%	4.17%	-1.68%			
Foreign Large Value	17.80%	17.34%	-0.47%	6.81%	6.14%	-0.67%	3.76%	2.39%	-1.37%	4.23%	2.71%	-1.52%	3.87%	2.46%	-1.41%			
<b>Allocation</b>																		
Target-Date 2000-2010	13.86%	13.33%	-0.53%	6.66%	6.13%	-0.53%	5.03%	4.15%	-0.88%	6.19%	5.36%	-0.83%	4.90%	3.98%	-0.92%			
Target-Date 2020	16.14%	15.71%	-0.43%	7.59%	7.01%	-0.58%	5.51%	5.00%	-0.51%	6.94%	5.99%	-0.95%	5.21%	4.97%	-0.24%			
Target-Date 2030	20.07%	19.43%	-0.64%	9.43%	8.78%	-0.66%	6.75%	6.48%	-0.27%	8.12%	7.20%	-0.92%	5.88%	5.80%	-0.08%			
Target-Date 2040	23.19%	22.46%	-0.73%	10.70%	9.88%	-0.82%	7.57%	7.15%	-0.42%	8.89%	7.95%	-0.94%	6.33%	6.51%	0.18%			
Target-Date 2050	24.54%	23.45%	-1.09%	11.16%	10.23%	-0.93%	7.88%	7.82%	-0.06%	9.15%	8.24%	-0.91%	6.45%	6.73%	0.29%			
Allocation--30% to 50% Equity	14.81%	14.56%	-0.25%	6.31%	5.79%	-0.53%	4.66%	3.89%	-0.77%	6.19%	5.30%	-0.89%	4.97%	4.29%	-0.69%			
Allocation--50% to 70% Equity	19.23%	18.70%	-0.53%	8.55%	7.97%	-0.58%	6.22%	5.54%	-0.68%	7.90%	7.24%	-0.65%	6.21%	5.30%	-0.91%			
Allocation--70% to 85% Equity	21.35%	20.80%	-0.54%	9.16%	8.68%	-0.49%	6.54%	5.81%	-0.73%	8.44%	7.74%	-0.70%	6.31%	5.05%	-1.26%			
<b>Average</b>			<b>-0.34%</b>			<b>-0.81%</b>			<b>-1.05%</b>			<b>-0.99%</b>			<b>-1.17%</b>			
<b>Underperformance</b>																		

Source: Morningstar Direct

## Fixed Income Flight

Over the last few years there has been much noise regarding market events such as Brexit, Greece, hard landings in China, oil price declines, and unconventional central bank policies. During these periods of heightened anxiety, it can be tempting for retirement plan investors to abandon their long term investment objectives. This behavior can have a detrimental impact on portfolio returns as assets could be shifted from age and/or risk-appropriate assets to something much more conservative. For example, during 2008, a year in which the S&P 500 declined 37%, many investors fled equity markets in favor of fixed income markets. Those who did so, are still waiting for the account values to recover.

### Cumulative Returns for Morningstar Fixed Income Categories

Name	Cumulative Return 1/1/2009 – 12/31/2019	Cumulative Return Still Needed to Break Even after a 37% Loss
Money Market	3.00%	54.11%
Ultrashort Bond	21.95%	30.16%
Short Government	16.09%	36.73%
Short-Term Bond	32.77%	19.55%
Intermediate Government	35.09%	17.50%
Intermediate-Term Bond	64.83%	0%
Inflation-Protected Bond	44.46%	9.90%
World Bond	49.35%	6.28%

Source: Morningstar Direct

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