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Asset allocation

A long-term strategy that may help your portfolio weather the market's ups and downs

April 21, 2020

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A look at market volatility

What are “bear” and “bull” markets?

- **Bull market:** From the lowest close reached after the market has fallen 20% or more, to the next market high.
- **Bear market:** 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.

Bear markets and recessions

Since the end of WWII in 1945, there have been:

- 12 bear markets (–20% losses or more).
- 11 economic recessions (fall in GDP in two back-to-back calendar quarters).[1]

In major recent market declines,[2] stocks fell:

1973–1974	2000–2002	2007–2009
Roughly 43% (peak to low point)	Roughly 45% (peak to low point)	Roughly 51% (peak to low point)

1 Sources: https://www.minneapolisfed.org/publications/special-studies/rip/recession-in-perspective; Here's How Devastating a Bear Market Can Be.

2 Sources: Time.com, January 26, 2016. http://time.com/money/4192778/bear-market-stocks-bonds-oil/; First Trust Advisors, LP and Morningstar.

Bull and bear markets

Bull & bear facts

S&P 500® Index 1956 to 2018

Average gain in bull market	**144%**
Average loss in bear market	**-27%**
Average length of bull market	**54 months**
Average length of bear market	**14 months**

The latest bull market

S&P 500®

From March 9, 2009 thru January 26, 2018
the S&P 500® is up

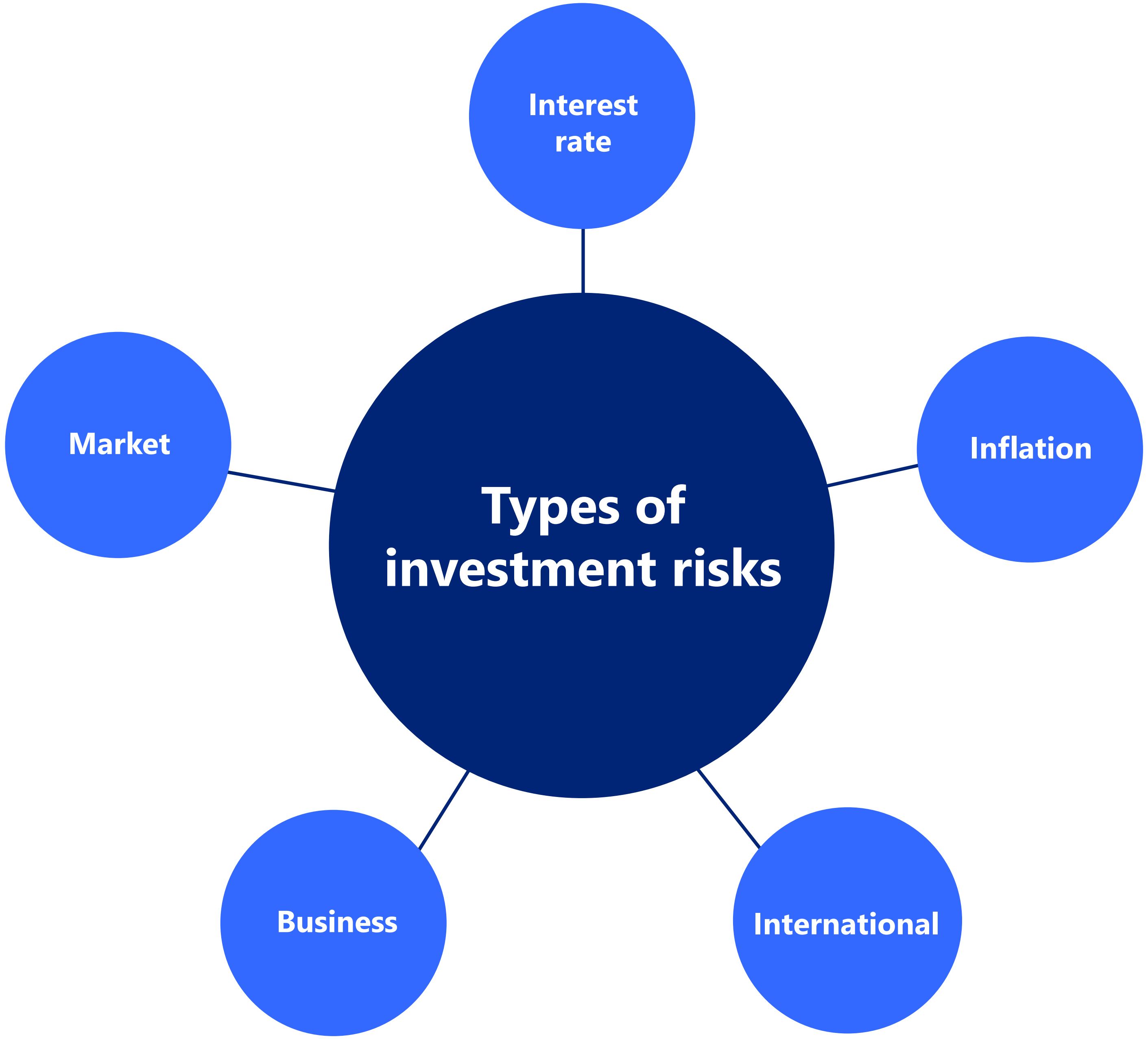
↑346%

Bear market corrections

The average correction for the S&P 500® since WWII lasts 4 months and sees equities slide 13% before bottoming, according to analysis from Goldman Sachs and CNBC.

Market condition	Performance %	Length (months)	Recovery (months)
Bear markets	-30	13.2	22
Corrections	-13	4	4

What's behind market volatility?



It’s the time in the market, not timing the market

1986 Is it Good for America?

1998 Is the Boom Over?

2008 The New Hard Times

2016 Make America Solvent Again

1974 Economy: The Big Headache

1987 The Crash

2001 Looking Beyond the Bear

2012 We’ve Got More Work to Do

Looking at the opportunity

S&P 500® – January 1, 1997 to December 31, 2018 (+2,506)

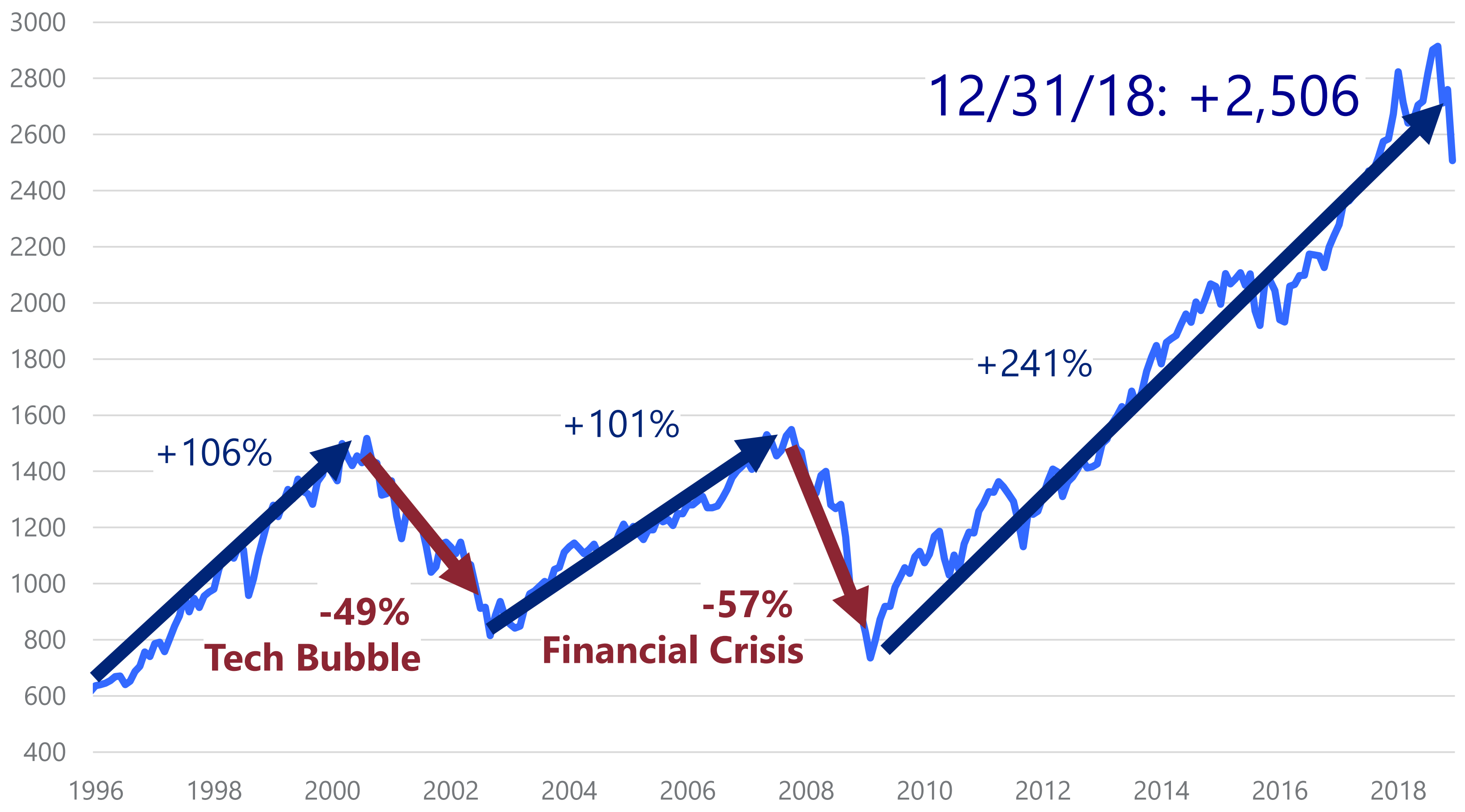
Worried about another correction?

Source: Google Finance as of October 16, 2017.

Past performance is not indicative of future results. The performance of an unmanaged index is not indicative of the performance of any particular investment. Individuals cannot invest directly in an index. Please see the index definition on the last page.

What will happen next?

S&P 500® – January 1, 1997 to December 31, 2018 (+2,506)



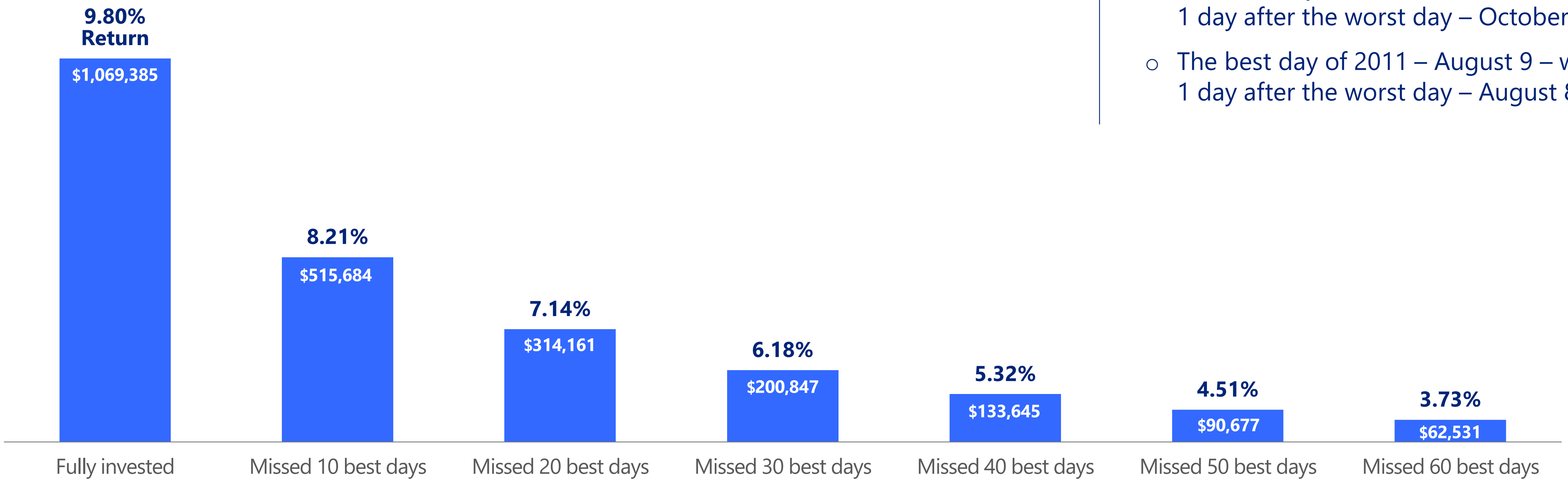
Past performance is not indicative of future results. Individuals cannot invest directly in an index.

Impact of staying in the market

Trying to time the market is extremely difficult. Market lows often result in emotional decision-making. Investing for the long term while managing volatility can result in a better retirement outcome.

Return of the S&P 500®

Performance of a $10,000 investment between January 2, 1969 and December 31, 2018



Seven of the **best 10 days** occurred within **2 weeks** of the **10 worst days**

- The best day of 1997 – October 28 – was only 1 day after the worst day – October 27
- The best day of 2011 – August 9 – was only 1 day after the worst day – August 8

Source: J.P. Morgan Asset Management analysis using data from Bloomberg.

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What to do in a volatile market

What should I do in a volatile market?

Breathe. Then follow a reasoned, sensible approach:

- Review your account balance, asset allocation and fund performance (short- and long-term).
- Rebalance or reallocate your investments into a more suitable mix, if appropriate.
- Use an online retirement savings calculator to determine how much you'll need to save. You can find one at equitable.com/retirement.
- Save more to make up any gap.
- Reconsider plans for when you'll retire.

What should I do in a volatile market?

Don’t panic.

- Don’t stop contributing to your retirement account.
- Don't randomly change your allocations.
- Don't sell just because the market is down.

A sensible strategy: asset allocation

- What is it?
- Why is it important?
- Diagnostic tools
- Diversification
- Choosing your investment mix

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What is asset allocation?

It's the process of dividing your investment dollars into various types of investments.

Why is it important?

- May help you pursue your investment goals.
- May allow you to maximize return potential while managing risk.

"Don't put all your eggs in one basket."

Asset allocation does not protect against loss or guarantee a profit. All investing involves loss, including loss of principal.

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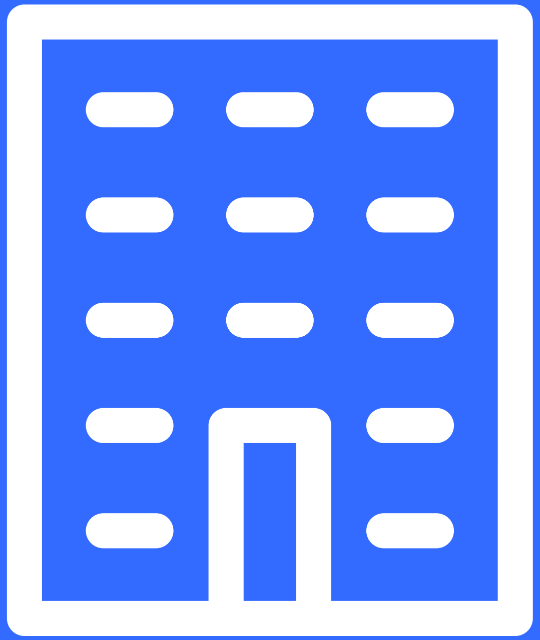
The basics of investing

The basics of investing

Stock

- A share of ownership in a company.
- Historically, stocks have provided higher long-term investment returns, but can be more risky.
- Can be issued by large companies, mid-sized companies and small companies, both in the United States and internationally.

The prices of small- and mid-cap stocks are generally more volatile than large cap stocks. International investing involves special risks, such as currency fluctuation and political instability, and may not be suitable for all investors.



The basics of investing

Bonds

- A loan to a company that is obliged to pay back principal and interest.
- Generally less risky than stocks, but with less growth potential.

Stable value

- Asset class that strives to maintain stable returns and protect capital.
- Generally, less risky than stocks or bonds, stable value investments may also protect value in a period of rising interest rates.

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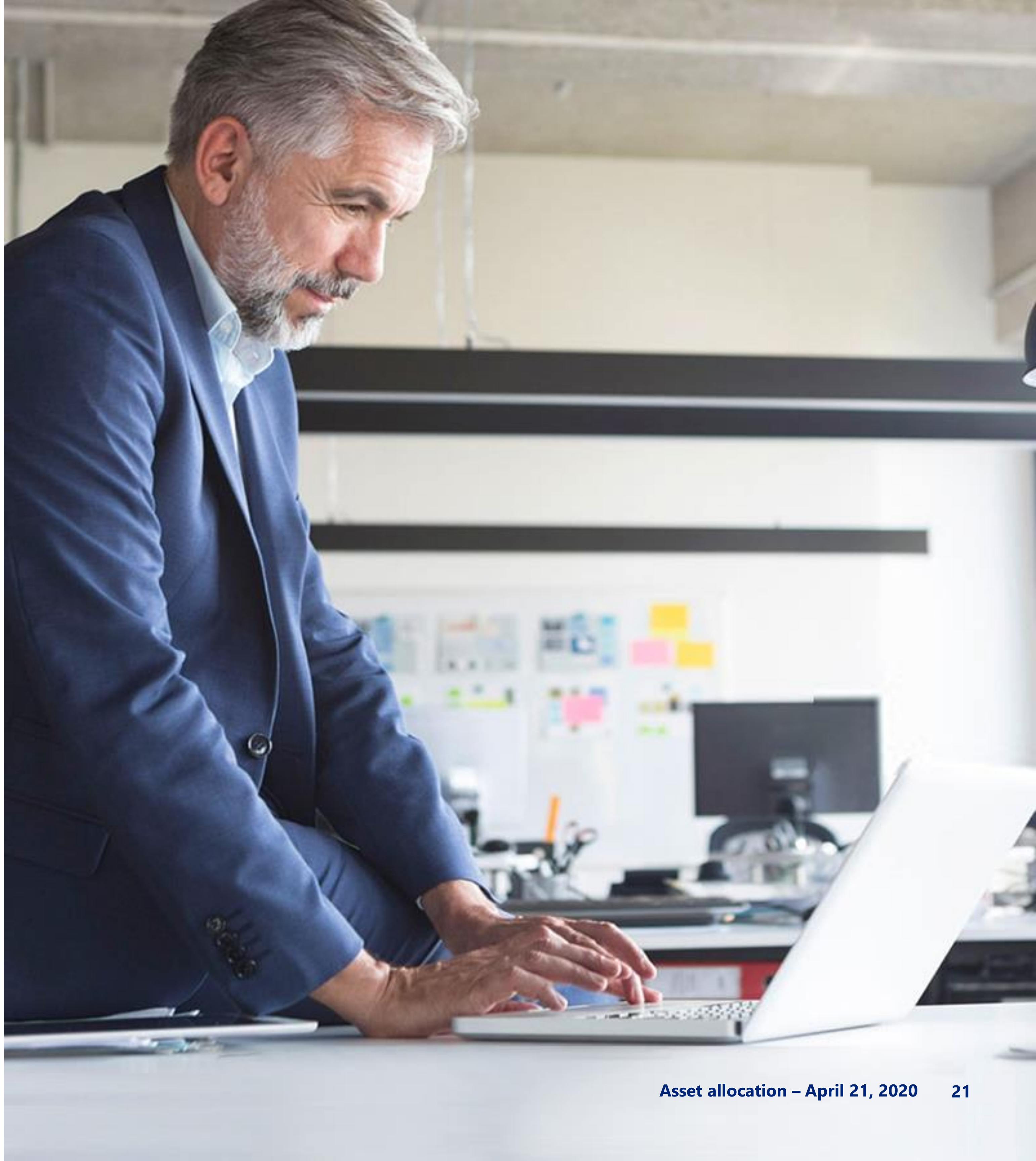


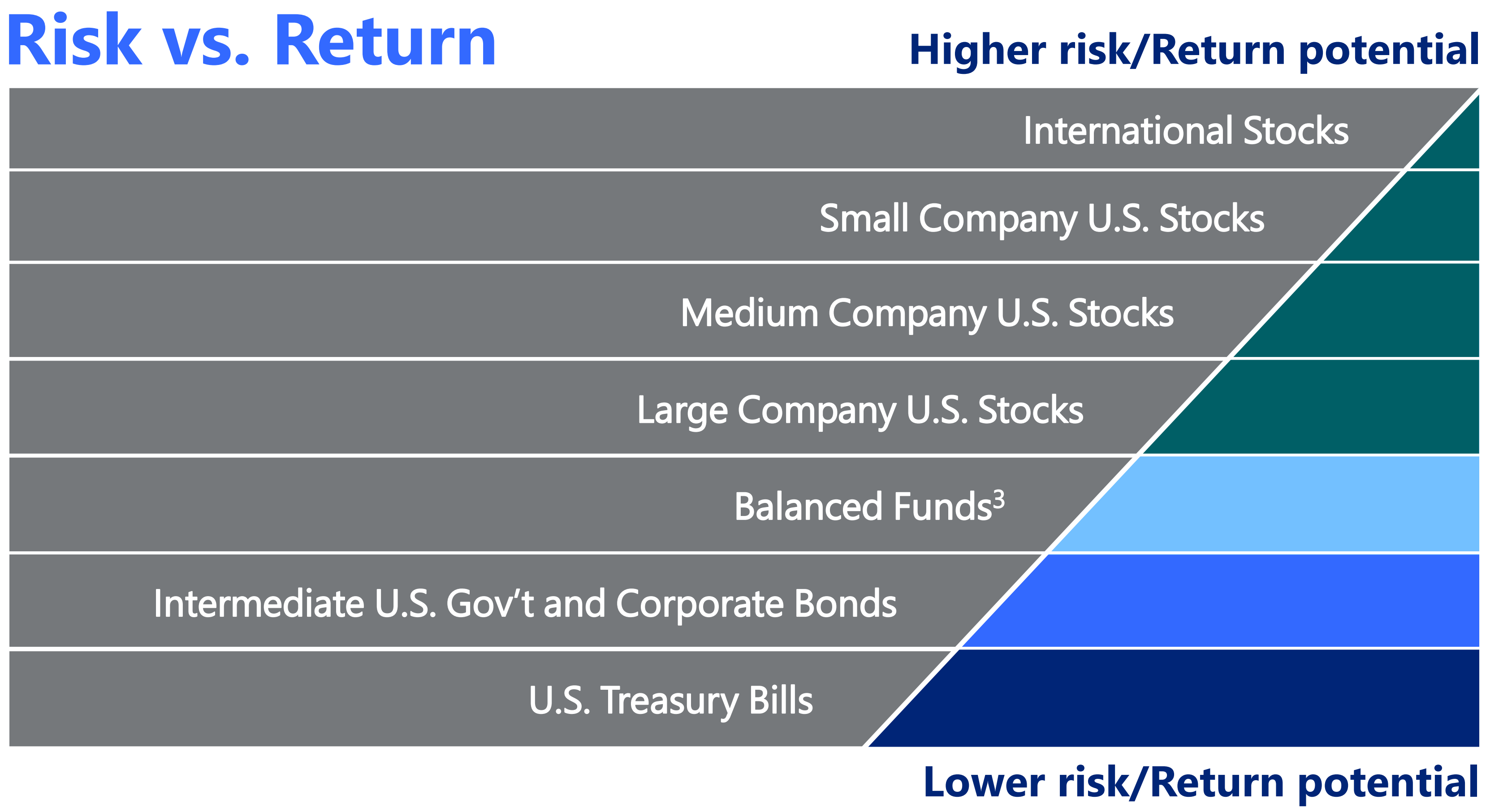
The basics of investing

Target date

An investment fund that is designed for a specific date (e.g., retirement), and automatically adjusts the investment mix to become more conservative as the date approaches. The principal value of a target fund is not guaranteed at any time, including at the target date.

Investing in mutual funds involves risk, including possible loss of principal.

Asset allocation



Source: J.P. Morgan Asset Management analysis using data from Bloomberg.

3 Balanced between 50% Large Company Stocks, 50% Intermediate U.S. Government Bonds. Balanced mutual funds are not necessarily 50/50.

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Choosing your investment mix

Choosing your investment mix

Things to consider:

How do you feel about market risk?

Other considerations:

- How many years you have until you'll need the money.
- Your current lifestyle and financial situation.
- What you want to pursue in retirement.

Choosing your investment mix

Things to consider:

How much will you need?

Many financial experts estimate that you will need upwards of 90% of your preretirement income to maintain your standard of living when you quit working.

Source: CNN Money, November 29, 2017.

Choosing your investment mix

Things to consider:

How long will my money last?

Living 20 years in retirement is a realistic expectation.
A 65-year-old man can expect to live to **84**.
A 65-year-old woman can expect to live to **87**.

Source: CNN Money, November 29, 2017.

Choosing your investment mix

Things to consider:

Inflation

Inflation's impact			
Item	**1988**	**2018**	**2048**
Gallon of milk	$2.30	$3.75	$9.10
Postage stamp	$0.25	$0.50	$1.21
Cup of coffee	$0.41	$2.70	$6.55
Gallon of gas	$1.08	$2.50	$6.07
Movie ticket	$3.50	$10.00	$24.27
Mid-priced car	$10,400	$25,000	$60,682

Sources: 1988 prices are based on Kmotion Research. 2018 prices are based on general averages. Projections for 2048 prices assume a 3% annual inflation rate.

Choosing your investment mix

Things to consider:

Time is money

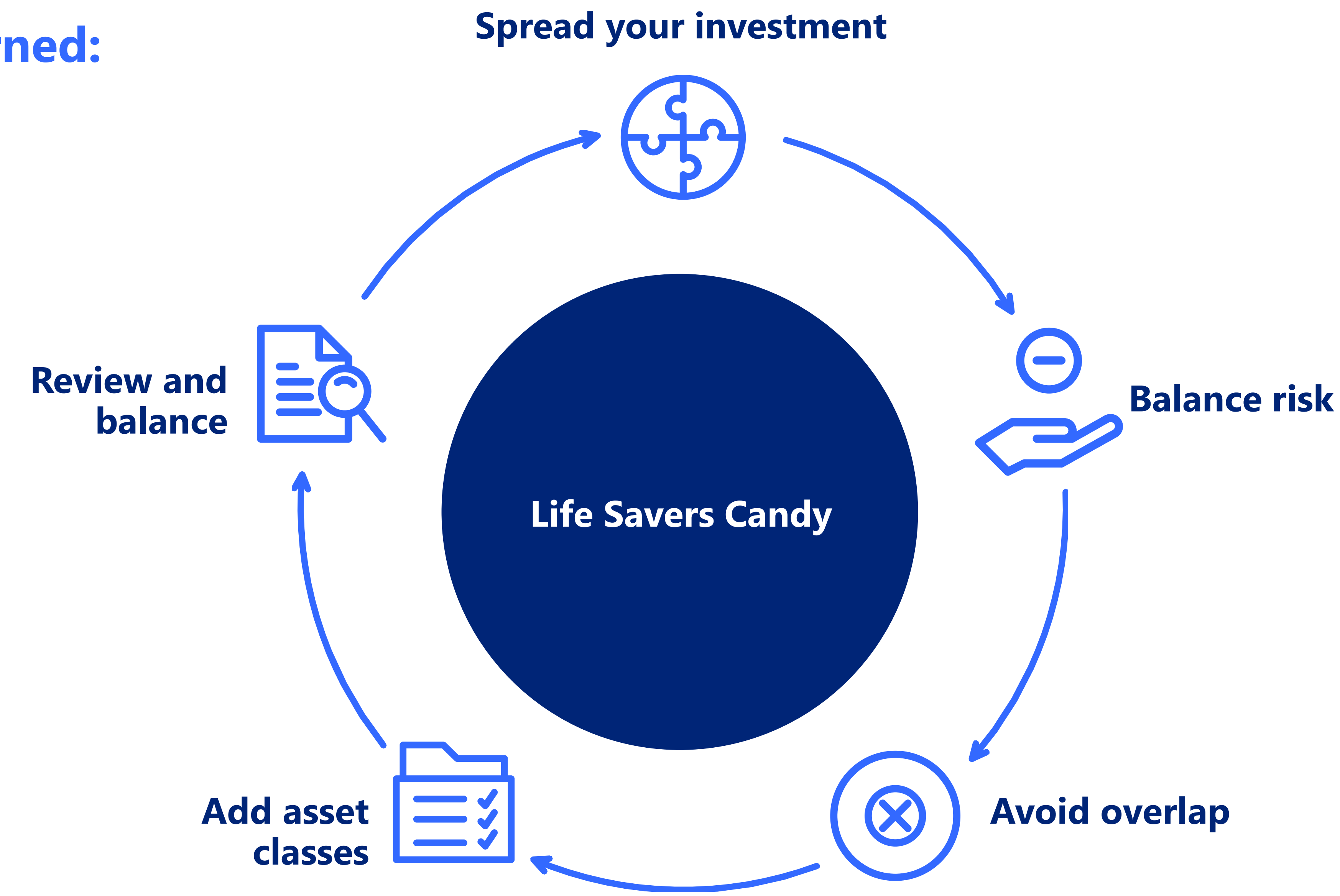
The Rule of 72	
	Example
1. Take the rate of return you expect to receive on your investment:	8%
2. Divide 72 by that number:	72 ÷ 8
3. The result is the number of years it will take for your investment to double:	9

Expected rate of return	Years for investment to double
6%	12 years
8%	9 years
10%	7 years
12%	6 years

Sources: 1988 prices are based on Kmotion Research. 2018 prices are based on general averages. Projections for 2048 prices assume a 3% annual inflation rate.

The goals of diversification

A lesson to be learned:



What type of investor are you?

"Do it myself" investor

- Mix and match from your plan's investments according to the criteria you've set for yourself.
- A life cycle fund can align with your level of comfort with risk from conservative to aggressive.
- Target date fund: a fund that invests according to and through a specific target date, such as your retirement.

"Do it for me" investor

- For specified annual costs, assign account management to a professional investment manager who will select the funds for your account and manage your asset allocation for you.

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Let’s review

Let's review

Volatility

- After every bear market since WWII, stocks have recovered 25 months later (on average).
- When markets get choppy, it's human nature to become anxious and concerned.
- Your response to volatility should be guided by your money needs, time horizon, feelings about market risk – and asset allocation.

Asset allocation

- A sensible strategy that divides your investment dollars among various investments.
  - Types of investments
  - Types of investment risks
  - Diversification
- May help maximize return potential while managing risk.
- May allow you to weather the market's ups and downs without rushing to make snap decisions.
- "Do it myself" or "Do it for me" options.

Important information

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Thank you.

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