HEMINGTON
WEALTH MANAGEMENT

INVESTMENT NEWSLETTER

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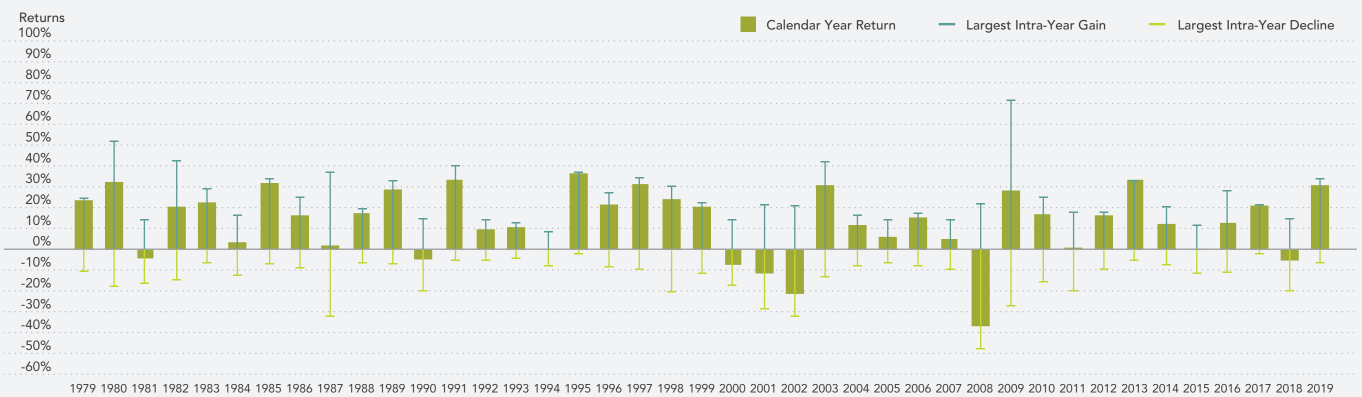
WHAT TO DO ABOUT CONTINUED MARKET VOLATILITY?

On Monday, March 9, 2020, the markets saw another sharp decline, as investors moved to the relative safety of US Treasury bonds, causing their prices to jump and their yields to drop to levels never seen before. Market volatility was blamed on the spread of the coronavirus and a steep decline in oil prices. At the time of this writing, while countries in Asia are beginning to see a slowdown in the virus' spread, states across the US are declaring emergencies with increase in cases, and all of Italy is under lockdown. The oil prices dropped because Saudi Arabia, in response to slowdown in demand, ramped up production and slashed prices. Market rebounded sharply on March 10, but on March 11, investors panicked again as a response to the WHO declaring a pandemic.

The impact of the Coronavirus should not be overlooked. But the market's declines are evidence that the market is functioning as it is supposed to: evaluating the impact of the virus on the economy and incorporating the news into security prices. While we understand that it can be difficult to remain calm during such a substantial market decline, it is important to be reminded that such volatility is a normal and not uncommon part of investing.

EXHIBIT 1. US MARKET INTRA-YEAR GAINS AND DECLINES VS. CALENDAR YEAR RETURNS

1979–2019



In US dollars. Data is calculated off rounded daily returns. US Market is the Russell 3000 Index. Largest Intra-Year Gain refers to the largest market increase from trough to peak during the year. Largest Intra-Year Decline refers to the largest market decrease from peak to trough during the year. Frank Russell Company is the source and owner of the trademarks, service marks, and copyrights related to the Russell Indexes. Past performance is not a guarantee of future results. Values change frequently and past performance may not be repeated. There is always the risk that an investor may lose money. Indices are not available for direct investment. Their performance does not reflect the expenses associated with the management of an actual portfolio. Past performance is not a guarantee of future results. Values change frequently and past performance may not be repeated. There is always the risk that an investor may lose money. Even a long-term investment approach cannot guarantee a profit.

Exhibit 1 shows calendar year returns for the US stock market since 1979, as well as the **largest intra-year declines** that occurred during a given year. During this period, the average intra-year decline was about 14%. About half of the years observed had declines of more than 10%, and around a third had declines of more than 15%. Despite substantial intra-year drops, calendar year returns were positive in 34 years out of the 41 examined. This goes to show just how common market declines are and how difficult it is to say whether a large intra-year decline will result in negative returns over the entire year.

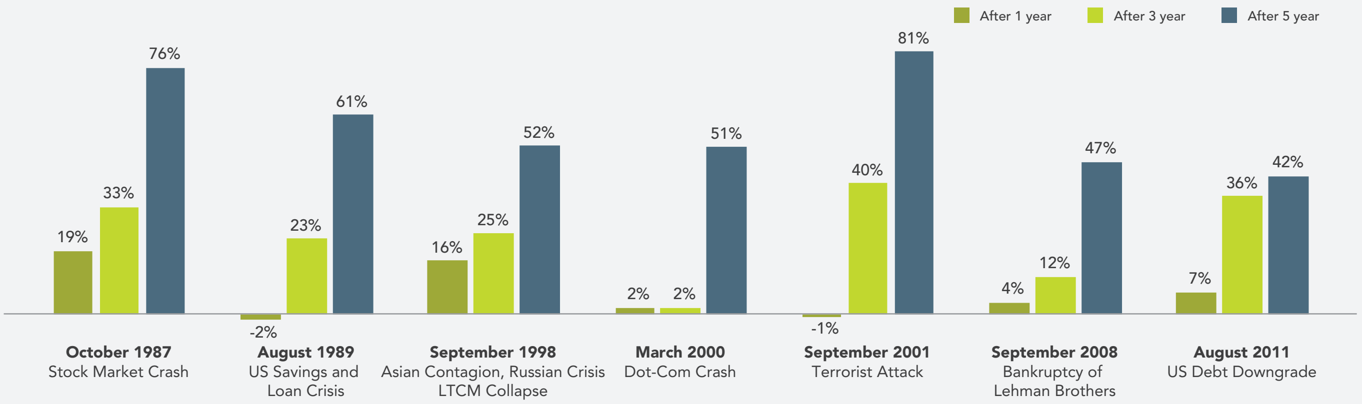
Exhibit 2 illustrates the importance of staying invested. The chart shows the performance of a balanced investment strategy following a few historical crises. Each crisis is labeled with the month and year that it occurred or peaked. The subsequent one-, three-, and five-year annualized returns start from the first day of the month following each crisis.

Although a global investment strategy would have suffered losses immediately following most of these events, the financial markets recovered over time, as indicated by the positive five-year cumulative returns. Negative events such as these may tempt investors to flee the financial markets. But a long-term perspective suggests that the best course of action is to ride out the storm.

At Hemington, we continue to monitor clients' portfolios daily. We are rebalancing to buy more stocks (at a discount to last month's prices) and tax loss harvesting to offset investment gains.

EXHIBIT 2. THE MARKET'S RESPONSE TO CRISIS

Performance of a Balanced Strategy: 60% Stocks, 40% Bonds. Cumulative Total Return



In US dollars.

Represents cumulative total returns of a balanced strategy invested on the first day of the following calendar month of the event noted. Balanced Strategy: 12% S&P 500 Index, 12% Dimensional US Large Cap Value Index, 6% Dow Jones US Select REIT Index, 6% Dimensional International Value Index, 6% Dimensional US Small Cap Index, 6% Dimensional US Small Cap Value Index, 3% Dimensional International Small Cap Index, 3% Dimensional International Small Cap Value Index, 2.4% Dimensional Emerging Markets Small Index, 1.8% Dimensional Emerging Markets Value Index, 1.8% Dimensional Emerging Markets Index, 10% Bloomberg Barclays Treasury Bond Index 1-5 Years, 10% FTSE World Government Bond Index 1-5 Years (hedged), 10% FTSE World Government Bond Index 1-3 Years (hedged), 10% ICE BofA 1-Year US Treasury Note Index. Assumes monthly rebalancing. For illustrative purposes only. *Bloomberg Barclays data provided by Bloomberg. Dimensional indices use CRSP and Compustat data.*

About Hemington Wealth Management

Hemington Wealth Management provides high net worth individuals and families with a broad range of wealth management services including portfolio management. We are collaborative, accessible and responsive, making it easy for clients to work with our team.

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