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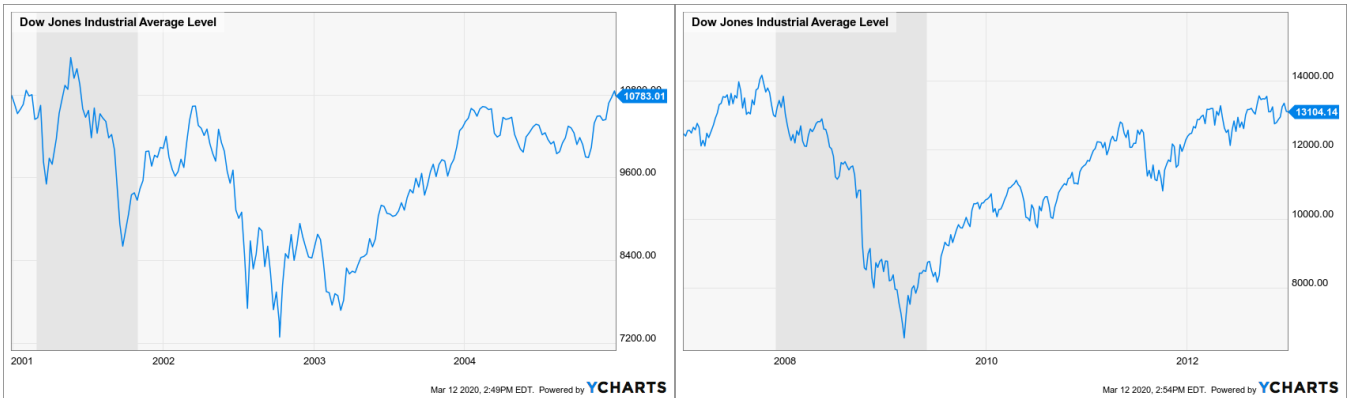
Claro Market Insights
Weathering the Storm

Let's begin by stating that we hope you are well and staying healthy. What a few weeks it has been for the global markets, and for the world's well-being. Covid-19 virus fears and the mystery of its impact have certainly gripped economies and financial markets worldwide. Meanwhile, a fight for market share amongst some of the top oil producing countries has sent the price of oil falling precipitously, further spooking investors. As we have often said in the past, markets do not like uncertainty and there is plenty of it to go around right now. With the fear and economic impact that the spread of the virus has been causing, along with the oil shock delivered to markets this past weekend, we want to reach out to help shed some light on what's transpiring and quell any concerns you might have. Nobody likes to see all these choppy days in the markets, but we are here to help you weather the storm.

We are vigilantly monitoring portfolios and welcome any questions you might have. Our long-term view on economic growth and investing hasn't changed, but rest assured we are constantly reviewing portfolios to keep an eye on short-term impacts and proactively take action where needed. Technically, the bull market which started March 9th, 2009 has met an end after an eleven-year run as of March 11th, 2020. How do we know? By definition, a bull market is when "prices are rising or expected to rise by 20% or more". Meanwhile, the Bear market definition is just the opposite, it's the condition where "prices are falling or expected to fall by 20% or more". As of March 11th, that condition was met as the Dow Industrial Average retreated -20.3% from its February 12th high. Bull and Bear markets are also accompanied, respectively, by improving or deteriorating financial conditions, positive or negative economic backdrop and positive or negative sentiment.[1] Although, as of a short month ago, the economic outlook and sentiment were positive, the Covid-19 virus and oil shock have certainly changed those views and financial conditions have also subsequently worsened. Another important consideration is that while bull markets can be long-lasting (measured in years and even decades), bear markets are often short and temporary (lasting just a few short months to a few years). For some perspective, during the 2000-2002 Bear Market (Dot-Com Bubble), it took about two years for markets to recover. And during the 2008 Great Recession, it likewise took markets a little more than two years to recover.



Now both these periods were defined by recessions which we have yet to confirm this particular time around. We also do not see this particular bear market as being very long-lasting. For one thing, the prior two instances were compounded by burgeoning consumer debt, while during this particular cycle consumers have been able to maintain reasonable levels of debt and in many cases peoples' debt profiles have improved. That should help speed up a recovery as consumption represents close to 70% of our country's Gross Domestic Product (GDP). So, although we are concerned with the current fragile state of markets and the economy in the short-term, when they do recover and rebound (which they will) market participants who remain invested will benefit as well.

[1] https://www.investopedia.com/terms/b/bullmarket.asp

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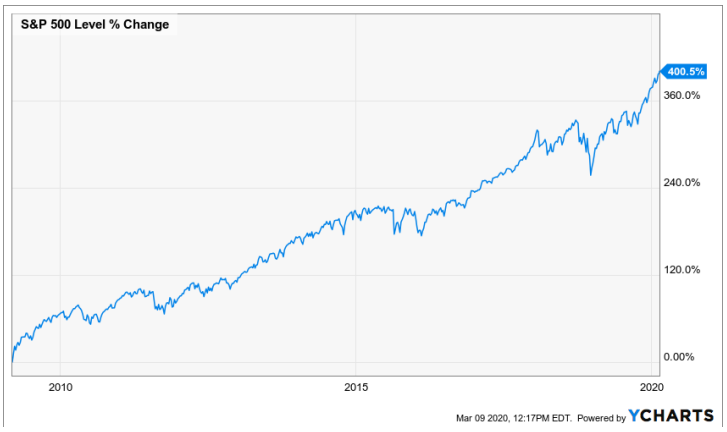
As for investing, often during these periods there is too much unknown to make hasty decisions, such as "sell everything" or "go all in." The prudent move is to assess what impact this will have on your current livelihood and your ability to achieve your financial goals. We constantly prepare portfolios to withstand periods of uncertainty and are proactively reviewing them to make sure we are invested appropriately. You likely are familiar by now with our constant and consistent investment philosophy that investments are made according to "your goals, your tolerance for risk, and the time horizon for your money." During periods of volatility, not only are investors' "tolerance for risk" tested, but the "time horizon" often is often revisited as well as people quickly change from "I don't need the money for many years", to "I need it tomorrow." Of course, we caution people against this behavior as emotions can often get in the way of good judgement and investing mistakes can be made.

So, from our minds to yours, here is a time horizon guideline to be followed…
For money that needs to be liquid (spent) within the next 1-2 years, those are investments, we believe, need to remain liquid in capital preservation-oriented investments such as money markets and short-term bonds. For money that is earmarked for your intermediate and long-term goals we remain invested accordingly and are constantly looking to put capital to work. We are regularly reviewing the underlying investments to focus on quality, such as those equity and bond managers who have successfully navigated periods of uncertainty in the past and demonstrate consistent, long-term returns. We monitor for individual stocks and bonds of companies that have resilient business models, strong balance sheets and are reliable dividend and income payers. For cash with no immediate spending need, we would consider adding to your investments as the sell-off abates and valuations become even more compelling for long-term investors. As your financial plan evolves, we will constantly work with you to make those determinations.

We understand how it feels when your portfolio value seems held hostage by market gyrations. We too prefer that markets go straight up in value, but we also understand that is not the norm. As we can hopefully still recall, equity markets have been more than generous over the past ten plus years as the S&P 500 grew 400% from 3/9/2009 to 2/19/2020.



Also, in recent years we saw some of the most benign market periods in history as volatility remained unnaturally low. Over a full market cycle, though, volatility is typical and often healthy as it can normalize things during periods of over and under valuation. Market ups-and-downs like what we are seeing recently are harsh reminders of that volatility the stock market sometimes presents.

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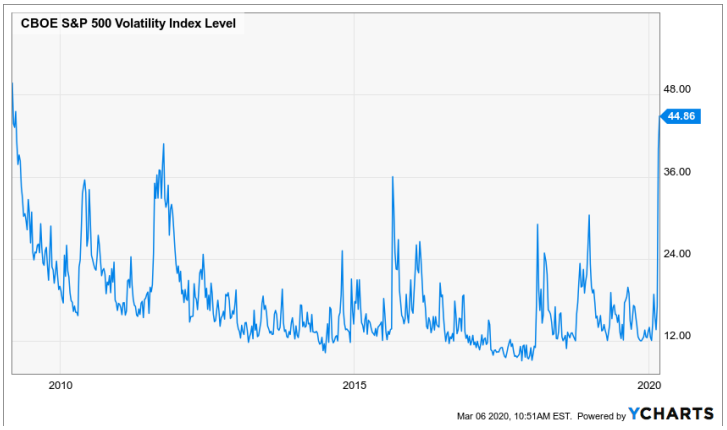
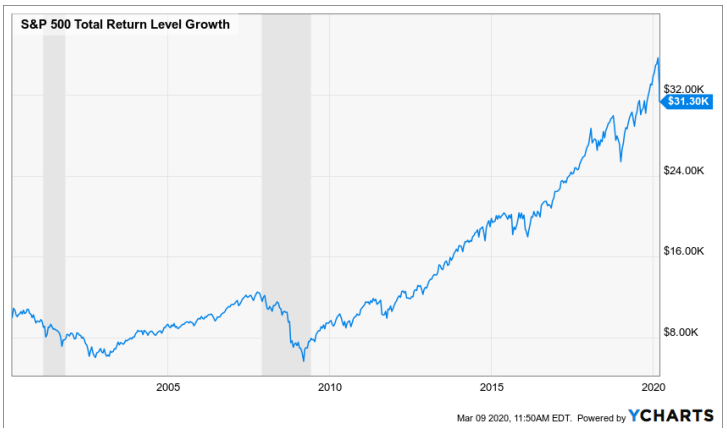


It's volatility well worth enduring over the long term, though, as the growth of markets and investors' money over time has certainly been proven time and time again. As an example, a $10,000 investment made in March 2000 would have grown to $31,300 despite enduring two severe recessions and the most recent selloff.



We realize in the short-term, the volatility to portfolios is difficult to endure, but we all have seen quite a few of these periods in the past. History has consistently shown us that even when markets behave like this, there is gain after the pain. Once markets are able to adjust to this particular period of volatility, when the economic and health impact of the virus has run its course, when energy prices have stabilized, and confidence has been restored to markets, we will once again be faced with yet another period of growth.

In the meantime, we will continue to gather as much information as possible to put you in the best possible position to achieve your short and long-term goals. As always, thank you for your continued assurance in our ability to be prudent stewards and protectors of your hard-earned wealth and your financial plan.

We are always available to speak with you anytime, so feel free to reach out if you have questions.