

1st Quarter • 2020

The Unprecedented Effects of COVID-19

With the COVID-19 crisis impacting lives and economies around the world, we have been thrown into extremely challenging times, as individuals and as a nation. The safety and health of our families, friends, colleagues, and clients are clearly our first priority. Our thoughts are with you.

With a spillover into the markets of unprecedented volatility,* investors worry what the future holds. When will the stability and clarity we seek replace the current uncertainty, bad news, and confusion? When the news is bad with certainty, we and the market can digest the news and act accordingly. Ongoing uncertainty is often more challenging.

At NewSquare, we look back to earlier crises for clues. We have lived through markets of significant turmoil before. We remember the market crash in October of 1987, when the market lost 22.6% in

“The courage to press on regardless—regardless of whether we face calm seas or rough seas, and especially when the market storms howl around us—is the quintessential attribute of the successful investor.”

—John C. Bogle, founder and former chief executive of The Vanguard Group

a single day, yet the S&P 500 finished the calendar year with a gain. We remember, too, the dot-com crash of the early 2000s and the Great Recession later that decade. They, too, were significant downturns, followed by long bull markets.*

Pandemics have struck before. They include the devastating Spanish flu of 1918, the Asian flu pandemic of 1957, the Hong Kong flu in 1968, and the Swine flu in 2009. While some of them were followed by recession, historically, markets kept climbing higher, rewarding investors.

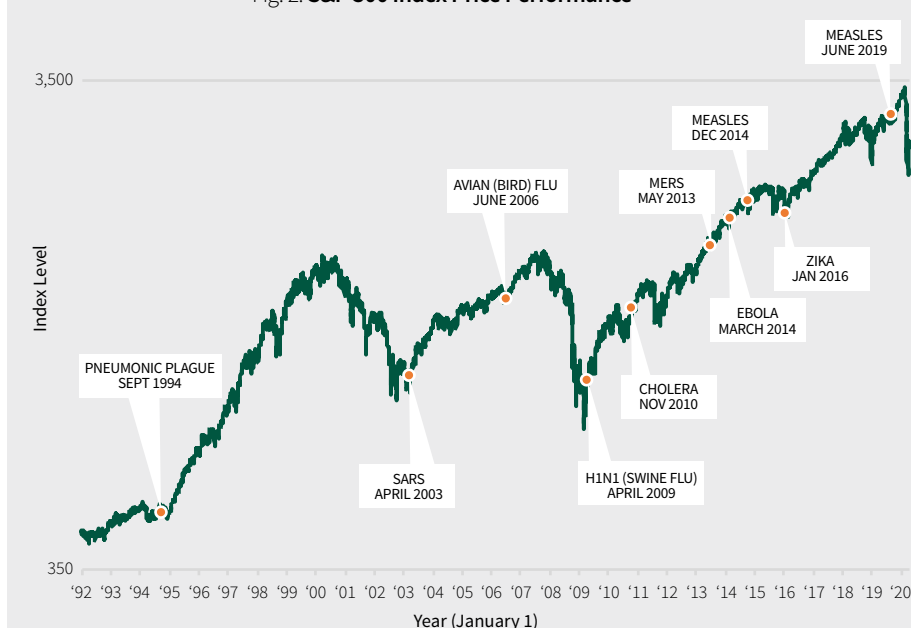
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Fig. 1: S&P 500 Biggest Declines and following 12-month Performance

Dates of S&P's biggest declines	Black Monday 8/25/87-12/4/87	Gulf War 7/16/98-10/11/90	Asia Monetary Crisis 7/17/98-8/31/98	Tech Bubble 3/27/00-10/9/02	Financial Crisis 10/9/07-3/9/09	U.S. Credit Downgrade 3/10/11-10/3/11	Trade War 10/3/18-12/24/18
U.S. stocks	-33.5%	-19.9%	-19.3%	-49.0%	-56.8%	-19.0%	-19.6%
Next 12 months	+21.4%	+29.1%	+37.9%	+33.7%	+68.6%	+32.0%	+37.1%

Source: Morningstar as of 2/28/20. Returns are principal only, not including dividends. U.S. stocks represented by the S&P 500 Index. Past performance does not guarantee or indicate future results. Index performance is for illustrative purposes only. You can't invest directly in an index.

Fig. 2: S&P 500 Index Price Performance



Source: Bloomberg Finance L.P.

Epidemic	Date	S&P 6-mo TOTAL RETURN	S&P 12-mo TOTAL RETURN
Pneumonic Plague	Sep '94	9.70%	29.70%
SARS	Apr '03	15.60%	22.90%
Avian (Bird) Flu	Jun '06	12.70%	20.60%
H1N1 (Swine Flu)	Apr '09	20.00%	38.80%
Cholera	Nov '10	15.00%	7.80%
MERS	May '13	11.90%	20.40%
Ebola	Mar '14	6.40%	12.70%
Measles	Dec '14	1.20%	1.40%
Zika	Jan '16	13.30%	20.00%
Measles	Jun '19	10.90%	N/A
Average Total Returns		11.67%	19.37%**

**12-month average does not include Measles June 2019.

Observations:

6-month change of the S&P 500 Index following the start of the epidemic was positive in all ten cases, with an average total return of 11.67%.

12-month change of the S&P 500 Index following the start of the epidemic was positive in all nine cases, with an average total return of 19.37%.



“What If?”

At this time of tremendous uncertainty, “Where are we headed?” and “What should we do?” are questions on investors’ minds. We never make market predictions, because markets are inherently unpredictable. That said, building best and worst cases for the coronavirus, with history as a guide, can be instructive.

For example, if the coronavirus is controlled over the next few weeks or months through prevention and containment measures, we could avoid a deep recession. Economies and companies may for the most part recover quickly, and we may look back on this quarter as a short correction before things returned to normal. We’ve seen a similar story unfold, when the Hong Kong flu struck in late 1968, killing approximately one million people worldwide and 100,000 Americans.¹ The U.S. real gross domestic product (GDP) kept growing, at 4% annually, right through the pandemic’s peak.*

In a much gloomier scenario, the virus causes a severe health crisis that lingers, and the global economy plunges into a long recession. Unemployment spikes, bankruptcies swell, profits dry up, and the market takes much longer to stabilize. That one sounds scary, right?

It also sounds a lot like the Asian (H2N2) flu, which hit the United States in the summer of 1957, killing nearly 116,000 Americans.¹ The post-war economy, which had been growing at a 3% annual rate, reversed course in the fourth quarter that year, with GDP falling 4%. The following quarter, still the worst since World War II, GDP shrunk 10%. And then? Over the next five quarters, the economy bounced back, averaging 7.8% annual growth. The S&P 500 also roared to a new high, advancing over 43% for the calendar year before the end of 1958.*

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They consult with their advisors to ensure their plans remain sound. They understand that their portfolios are designed for the long term. Of course, in times like these, that’s easy to say. Sticking with your long-term plan in the middle of market upheaval is much more difficult to do.

Steps to Take (and NOT Take)

There’s no question, extreme volatility is challenging. What we saw toward the end of the quarter was the fastest 30%-plus decline in history, followed by a 3-day rebound, with the biggest gains since 1933.* Such dramatic volatility triggers emotions and built-in biases that tempt us to pull back on risk and pull out of the market.

Recency bias is the tendency to place too much weight on recent events. That’s why, right now, it is easy to focus on how much we’ve lost, on paper, rather than on our gains from the recent multiyear bull market.

Consider the positives: There are a number of things in our favor now.

Confirmation bias—giving more weight to ideas that confirm our beliefs and less to those that contradict what we believe—is also at work, especially in today’s social media-driven world, where information flows faster than ever. As we seem glued to our phones and computer screens, it is easy to focus on the negative headlines of the moment.

Consider the positives: Experts say the best way to fight confirmation bias is to look for ways to challenge what you think you see. That’s good advice. There are a number of things in our favor now. First, the economy was healthy coming into this, marked by a sparkling February jobs report. That could help drive a speedy return to stability once the virus is contained. Second, the market infrastructure—the high-speed, computerized “plumbing” that runs today’s markets—was ready for this. In 1987, on “Black Monday,” the market shut down when trading volumes spiked to a record above 600 million shares, just over three times the average daily volume at the time. In recent weeks, volume crossed the 19-billion share mark, with average daily volumes at over 15 billion shares a day, more than twice the daily volume before the pandemic. While the prices may not have been what investors wanted to see, the

¹Source: Centers for Disease Control and Prevention.

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market structure hummed along, in spite of the significant increases in trading volumes.*

There's more: Governments and central banks are responding around the world, with the biggest relief package in U.S. history—\$2+ trillion dollars passed into law. We feel that the speed of the action taken and the magnitude of the relief package could have a quick and significant positive impact on the economy. Also, large sections of the economy are able to continue operating, many without missing a beat, while people work from home. And on the medical front, the best minds in the world are racing to develop and bring to market new vaccines and cures.

Living through this market uncertainty is hard. But like all other market crises, we believe this one, too, will end. And as history so clearly shows, when the markets turn, there may be significant opportunity for those who have stuck to their plans.* Well-prepared investors will stay calm, think rationally, and stay focused on the long term. For many, that means sticking with their long-term plans and evaluating potential opportunities. That's exactly what we're doing at NewSquare.

Portfolio Discussion

During the first quarter of 2020, we made significant adjustments to our rules-based, technically based portfolios in accordance with their investment methodology. This move to a defensive posture is exactly what they were designed to do in situations like this. When the market is able to find its footing and turn around positively for a potential sustained trend, we expect that the portfolios will adjust again, increasing their stock exposure.

With our fundamentally based portfolios, we took the opportunity to add equity exposure during these volatile times. We made best efforts to take advantage of the selloff by increasing our stock exposure in order to get closer to our upper bounds over time. Both strategies, along with all other NewSquare strategies, are following their particular discipline, especially during these feverish market periods.

*Statistical data sourced from: Bloomberg Finance L.P., Morningstar, and NewSquare Capital, LLC

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