MARCH 2020

ON THE MARGIN

Monthly Market Update

CBIZ Investment Advisory Services

Guide to Navigating Volatile Markets

Anna Rathbun, CFA, CAIA, Chief Investment Officer

The recent market swings have grabbed headlines around the world, recording some of the largest daily moves in recent history. Such wild gyrations in the markets can be alarming to investors and may cause anxiety about the future of the investing environment. At CBIZ IAS, we understand the discomfort around market volatility and would like to put some context around recent events to help you navigate through turbulent times.

What began as a viral outbreak in China has come around the globe and arrived in our states, counties and cities. Around the world, governments, institutions, and individuals have taken extreme measures to contain the spread of the coronavirus in order to protect some of the most vulnerable individuals in our society. These measures have curtailed economic activities around the world, which will have direct negative impact on businesses. For some companies, the losses will be all too immediate and real; restaurants, airlines, and other establishments of hospitality are feeling the pain as I write this. Other businesses will see delayed demand for their goods, as customers delay the purchase of items they would otherwise want or need. Much of how this pandemic will affect our economy, corporate earnings, and therefore, market behavior, will depend on the length of the pandemic, availability of liquidity for businesses, and the employment situation. And while governments have proposed fiscal stimuli and central banks around the world have eased credit conditions, we are confronted with a constantly changing situation. At this time, the choppy swings indicate a momentary inability of the market to price the ultimate impact of the coronavirus amidst these uncertainties.

WE'VE SEEN SHOCKS BEFORE

As investors, we understand that there may be shocks to the global economy and the markets from time to time. Shocks can come from within the markets, as in the subprime loans of the 2008 financial crisis, or from external factors, such as the coronavirus. Recently, we saw the U.S. market almost enter a bear market in reaction to the Fed's rate hikes in 2018, only to rebound in 2019 when the S&P 500 returned over 30%. History tells us that we have endured other steep bear markets in the past, but also enjoyed the bull markets that follow them, as shown in Table 1.

Table 1: Historical Bear Markets and the Bull Markets that Followed Them

Bear Market Period	Bear Market Loss	Bear Market Duration	Subsequent Bull Market Gain
1946 to 1949	30%	37 months	436%
1961 to 1962	28%	6 months	107%
1968 to 1970	36%	18 months	74%
1973 to 1974	48%	21 months	126%
1980 to 1982	27%	20 months	229%
1987	34%	3 months	582%
2000 to 2002	49%	31 months	101%
2007 to 2009	57%	17 months	401%*

Source: CBIZ IAS Research, Morningstar Direct, Standard and Poor's. The calculations represent price change only (S&P 500) and does not include dividends or reinvestment of dividends. Past performance does not guarantee future results.
**Calculated to closing price on February 19, 2020.*

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Anna Rathbun serves as the Chief Investment Officer for CBIZ Investment Advisory Services. Her tenure with the firm has spanned economic and market research, portfolio construction, and creating insights in investment themes to share with the investment community. Anna began her career in investments at Wellington Management, and subsequently, Harvard. She has served as a Managing Director for a registered investment advisory firm where she specialized in alternative investments. She is a graduate of Harvard University with a B.A. in Economics.

The investors who have embraced a long-term time horizon with a robust allocation appropriate for individual situations have generally been successful by remaining invested through the turbulence. Putting these market episodes in sequence, the equity markets though cyclical, trend up over time (Figure 1).

AVOID EMOTIONAL INVESTING... AT THE MARKET TOP AND BOTTOM

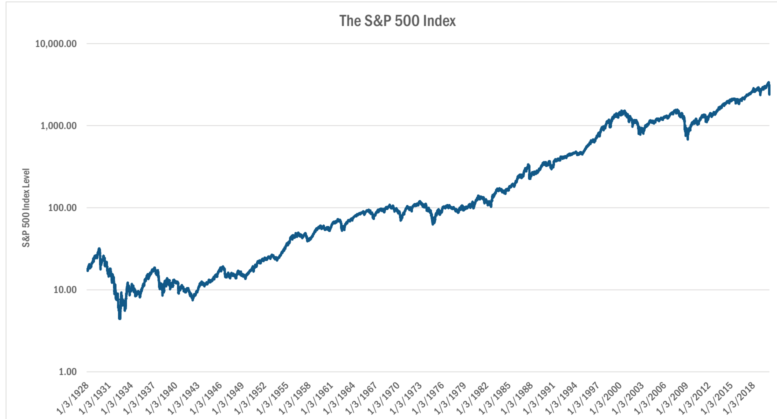
Large drops in the market can unnerve even the most rational investor. The emotions that govern us in times of market lows seem most visceral, but they come from the same place as the euphoria experienced during market highs. When markets rise quickly, investors often wish that they had invested more, and as greed sets in, we want to let our winners run. As markets set new highs, we do not have foresight into when the next downturn will be, but euphoria keeps us in the markets when we could be prudently rebalancing our portfolios. Conversely, when markets fall quickly, fear sets in, and we want to cut our losses. As the markets continue to fall, we do not have foresight into when the market will start to reverse course, but fear makes us want to sell, when we could be prudently rebalancing our portfolios.

If we act on our emotions instead of riding them out, history tells us that we underperform the market because investors tend to buy high and sell low. This is because it is impossible to time the market. Just as it was impossible to know the market top, the same is true for the market bottom. When markets rebound, they can return unannounced with a roar, and waiting until we "feel" better to invest can lead to less than optimal investment results, as shown in Figure 2.

STAY THE COURSE

Emotions will always be a part of the market experience. The antidote is to stay invested and disciplined. Consistent investing through a retirement program or personal discipline will help to dollar-cost-average over time as markets rise and fall. Periodic rebalancing can help to buy low and sell high as various asset classes ebb and flow, and staying invested will help to compound your assets through time. We understand that market volatility can be challenging to endure, especially when there seems to be no end in sight. However, we know that the markets, the American economy, and investors have demonstrated resilience in the face of multiple challenges, including the 9/11 terrorist attack and the Great Recession. Stay the course and keep a long-term perspective.

Figure 1: The Equity Markets Trend Up Over Time Despite Momentary Challenges



*Source: Morningstar Direct, Standard & Poor's. Past performance does not guarantee future results. January 3, 1928 to March 17, 2020. *The S&P 500 Index level is on a logarithmic scale.*

Figure 2: Three Scenarios of Investment Results - Missing the Rebound from Bear Markets in the S&P 500 Index

Source: CBIZ IAS Research, Morningstar Direct, Standard and Poor's. Past performance does not guarantee future results. The results are hypothetical assuming an intial investment of $1,000 and do not incorporate any fees incurred, taxes, or trading costs.

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