Weekly 3

WHAT YOU NEED TO KNOW ABOUT THE MARKETS

March 16, 2020

ORION

Week in Review

- **Professional Money Management Helps Investors Stay Disciplined**. It may surprise you that the market drops by more than 10% on average every year, peak to trough; yet, the average annual total return is more than 8%. Staying disciplined and invested helps avoid behavioral traps.
- **Is it Wise to Invest at Market Peaks or After a 10% Drop?** This year, the S&P 500 both hit an all-time high and experienced over a 10% decline, leaving investors wondering, is this a good time to invest?
- **95th Reasons Why People Did Not Invest in the Stock Market**. It's easy to find reasons not to invest in the stock market, but investors need to remember to take a step back and focus on the long term.

Another historic week for the market and for the world we now live in. Equity markets finished sharply lower and entered into bear-market territory after the World Health Organization declared the coronavirus a global pandemic.

- The week began with the sharpest decline in oil prices in nearly 30 years on new OPEC tensions. For the week, oil dropped nearly 20% and is down over 45% YTD.
- U.S. equities entered a bear market last week, dropping 20% from the high posted February 19th of this year and ending the bull market that lasted over a decade. That said, last Friday was also one of the best single days in the U.S. stock market ever.
- We do expect more market volatility in the weeks ahead, but it is our view that the markets will most likely be off to the races once there is light at the end of the tunnel regarding infection rates. In addition, one potential silver lining to COVID-19 is that with a renewed emphasis on hygiene and nutrition, it may lead to a reduction in this year's (and perhaps future) seasonal flu deaths.

On the week, U.S. large cap stocks dropped over 8%, growth outperformed value by just over 4%, and international markets fared worse with the developed markets down over 18% and emerging markets down over 12%.

- For the first time since 1997, circuit breakers at the New York Stock Exchange were tripped twice last week, on Monday and Thursday, when the Dow Jones Industrial Average fell by 7% both days.
- The fixed income markets also needed a stopgap to mitigate the unprecedented surge in volatility. This time the circuit breaker was the Federal Reserve, which injected $1.5 trillion dollars in available reserves in order to sooth investor angst reflected in bond yields that fell to record lows. All-time lows were set yet again in 10-year and 30-year Treasuries.
- On Sunday, March 15th, Fed Chair Powell and the FOMC lowered its target range on Fed funds to 0-25 bps. In terms of forward guidance, the Committee stated it "expects to maintain this target range until it is confident that the economy has weathered recent events and is on track to achieve maximum employment and price stability goals." Additional liquidity measures were also taken. These moves are clear positives for the economy and markets, but of course we still don't know how severe the economic contraction will be from COVID-19.

1 *How Professional Money Management Helps*

2 *Is it Wise to Invest Now*

3 *95th Reason to Not Invest*

The Weighing Machine podcast is on Google Play and iTunes.

On Orion Portfolio Solutions' The Weighing Machine podcast, Rusty Vanneman and Robyn Murray cut through the market clamor and focus on time-tested, proven principles that help financial advisors and investors reach their long-term financial goals.

Market Update Video

These are unique times and our daily life patterns are changing for the foreseeable future. We recognize many of you have a lot of questions on how to navigate individual and client portfolios during this turbulence. We are here to help however we can.

- **We believe wholeheartedly that staying the course; meaning balanced, diversified portfolios for the long-term, is your best option for success.**
- We will continue to update you to our thinking as it evolves. Look for the Daily OPS Market View video each day this coming week, found **here.** We did a few last week also. We have plenty of content to speak about, but please let us know if there are specific questions or concerns that you or your clients want us to address.

If you have any questions, please feel free to reach out to us:

Rusty Vanneman, CFA, CMT – Chief Investment Officer: rusty@orion.com; 402-896-7641
Kostya Etus, CFA – Director of Research: kostya.etus@orion.com; 402-896-7523

Market Performance

as of 03/13/2020

FIXED INCOME	10-YEAR	5-YEAR	3-YEAR	1-YEAR	YTD	QTD	LAST WEEK
Cash Equivalent[1]	+0.58	+1.11	+1.72	+2.08	+0.39	+0.39	+0.04
U.S. Investment Grade Bonds[2]	+3.78	+3.38	+5.01	+9.46	+2.36	+2.36	-3.17
EQUITIES	**10-YEAR**	**5-YEAR**	**3-YEAR**	**1-YEAR**	**YTD**	**QTD**	**LAST WEEK**
Global Equity Market[3]	+6.31	+3.46	+2.16	-9.42	-20.34	-20.34	-12.66
Total U.S. Market[4]	+11.00	+7.21	+5.91	-3.40	-16.65	-16.65	-9.58
Domestic Large-Cap Equity[5]	+11.53	+8.63	+7.82	+0.76	-14.23	-14.23	-8.18
Domestic Small-Cap Equity[6]	+7.67	+0.75	-3.08	-20.83	-26.99	-26.99	-16.00
International Equity[7]	+2.21	-0.43	-2.09	-17.01	-25.36	-25.36	-16.84
Developed International Equity[8]	+2.26	-1.09	-3.02	-18.36	-27.00	-27.00	-18.42
Emerging Market Equity[9]	+1.88	+1.52	+0.69	-13.33	-20.68	-20.68	-12.37
DIVERSIFIERS	**10-YEAR**	**5-YEAR**	**3-YEAR**	**1-YEAR**	**YTD**	**QTD**	**LAST WEEK**
Diversified Alternatives[10]	+1.46	-1.33	-2.15	-7.64	-11.41	-11.41	-7.50
Commodity[11]	-6.25	-6.65	-6.56	-18.34	-19.02	-19.02	-7.74

Morningstar

[1]Morningstar Cash Index [2]Bloomberg Barclay's Capital U.S. Aggregate Bond Index [3]Morningstar Global Market Large-Mid Index [4]Morningstar U.S. Market Index [5]Morningstar U.S. Large Cap Index [6]Morningstar U.S. Small Cap Index [7]Morningstar Gbl ex U.S. Large-Mid Index [8]Morningstar DM ex U.S. Large-Mid Index [9]Morningstar EM Large-Mid Index [10]Morningstar Diversified Alternatives Index [11]Bloomberg Commodity Index.

Professional Money Management Helps Investors Stay Disciplined

1

"Shut up, put your foot on the gas, and stay on course."
— Twister (1996)

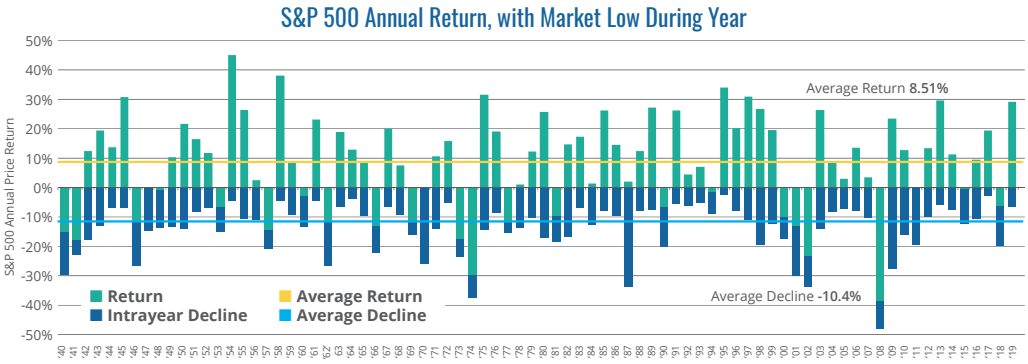
At Orion, we have several great resources and marketing materials that can be used to calm clients during periods of market turmoil and help them focus on the bigger picture. One of the best resources is, of course, the Quarterly Reference Guide, found here. This is a great piece filled with beautiful charts and impactful insights, and the professionally printed version looks great on desks.

The chart below, pulled from one of my favorite pages to reference in volatile times, shows two returns from each year since 1940. Total return is represented by the teal bar, and intra-year decline (the maximum market drop) is represented in blue.

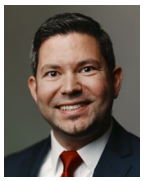
The key takeaway is the average maximum decline in any year is more than 10% — meaning the market drops by 10% at some point during the year. But stepping back to view the entire year shows an average total return of more than 8%.

This demonstrates that if investors bail on the market after a drop, they typically won't realize the total returns for the year, which are generally positive. For example, in 2014 the market was down by 7% at its lowest point; however, it ended the year up by more than 11%. Investors who exited the market during the low point would have missed out on a large upside gain.

The purpose of the chart is to show how professional money managers can benefit investors by helping them stay disciplined and invested. It illustrates the importance of remaining focused on long-term goals and the necessity of staying invested to participate in market gains.



Source: Morningstar Direct December 31, 2019. Returns are based on price index only and do not include dividends. Blue bars represent intra-year drops, which refer to the largest market drops from a peak to a trough during the year. Returns are calendar-year from 1940 to 2019.



KOSTYA ETUS, CFA
Co-director of Research & Senior Portfolio Manager

Konstantin "Kostya" Etus specializes in monitoring and evaluating various types of investment strategies, including SMAs and individual funds. In addition, he has specific expertise and experience with international investments, ESG, and 529 plans.

Mr. Etus began his career at Orion in 2011 as a Trading Specialist and became a Research/Portfolio Analyst in early 2013. In 2016, he was promoted to Portfolio Manager and later in 2019 promoted to Director of Research. Prior to working at Orion, Mr. Etus worked as an Associate Financial Analyst at ConAgra Foods, Inc., managing the company's global cash network.

He graduated from the University of Nebraska at Omaha with a Bachelor of Science degree in Business Administration and obtained Master of Investment Management and Financial Analysis and Master of Business Administration degrees from Creighton University. He holds the Series 65 securities registration and the Chartered Financial Analyst (CFA) designation.

Is it Wise to Invest at Market Peaks or After a 10% Drop?

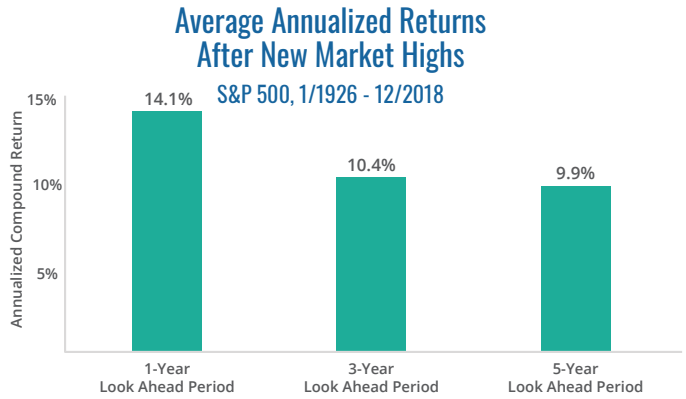
2

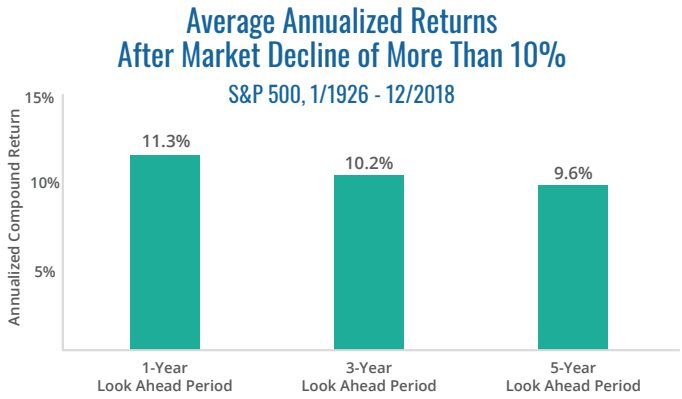
"Now while it's not wise to assume, in this instance, I think it's pretty safe."
— Django Unchained (2012)

This year, the S&P 500 both hit an all-time high and experienced over a 10% decline. Many investors are wondering whether this is a good time to invest. There are a couple charts I love to reference for this type of question.

- The chart on the left shows that after reaching new highs, the market typically returns nearly 14% over the following year.
- The chart on the right shows that after a market decline of 10% or more, the average return over the following year is about 11%.

Despite market positioning — whether the market is at all-time highs or has recently experienced a pullback — history suggests it may be a good time to invest.





Source: Dimensional Advisors

**Market decline of 10% is defined as a month in which cumulative return from peak is -10% or lower. Annualized compound returns are computed for the one-, three- and five-year periods subsequent to a market decline of at least 10%. 1,093 observations for one-year look-ahead, 1,069 observations for three-year look-ahead, and 1,045 for five-year look-ahead. One-year, three-year, and five-year periods overlap. The bar chart shows the average returns for the one-, three-, and five-year periods following a market decline of at least 10%.*

95th Reason Why People Did Not Invest in the Stock Market

3

> "You wanna say something?"
> "Yeah, about a million things. But I can't express myself monosyllabically enough for you to understand 'em all."
> — Mallrats (1995)

Aside from the wealth of information that the Reference Guide offers, we have some impactful one-pagers that can be easily digested. One of my favorites is titled "94 Reasons Why People Did Not Invest in the Stock Market," found here. Another way to phrase the title is 94 reasons why people sold stocks each year and deposited cash in the bank or even under their mattress! Here is what the piece depicts:

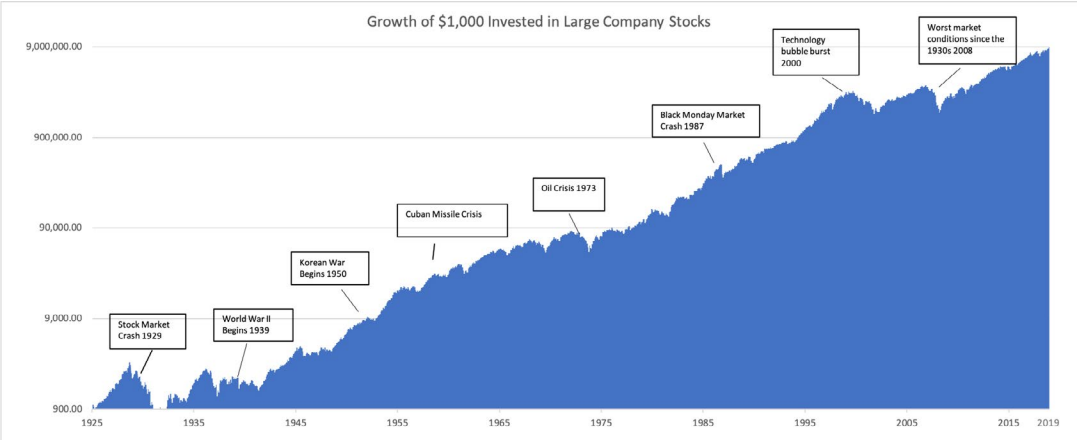
- Page 1 lists major geopolitical events that occurred each year since 1926 (it equates to 94 years of concerning events).
- Page 2 shows the performance of the U.S. market over that period.

To help illustrate the long-term impact, I included some of the more notable events on the chart below. It's a classic illustration of the importance of not getting too focused on a single tree, but instead taking a step back to enjoy the beauty of the entire forest.

There are plenty of excuses for not investing in the stock market. Despite all the events listed, $1,000 invested in large company stocks in January 1926 would have grown to more than $9 million at the end of 2019.

This exercise yet again points to the benefits of utilizing financial professionals who can help investors avoid emotional decisions that could be detrimental to their investment portfolios and long-term goals.

When we update the document for 2020, we'll certainly have some contenders for the 95th reason — not only the coronavirus, but the oil price war and U.S. presidential elections. And the following year, there will no doubt be contenders for 96.



**Morningstar DirectSM Large Company Stocks: S&P 500 Index. You cannot invest directly in an index. As of December 31, 2019.*

The Morningstar Global Market Large-Mid Index is an index that measures the performance of the global market's equity markets targeting the top 90% of stocks by market capitalization. The Morningstar U.S. Market Index is an index that measures the performance of U.S. securities and targets 97% market capitalization coverage of the investable universe. It is a diversified broad market index. The Morningstar U.S. Large Cap Index is an index that measures the performance of U.S. large-cap stocks. These stocks represent the largest 70% capitalization of the investable universe. The Morningstar U.S. Small Cap Index is an index that measures the performance of U.S. small-cap stocks. These stocks fall between the 90th and 97th percentile in market capitalization of the investable universe. In aggregate, the Small Cap Index represents 7% of the investable universe. Morningstar Global ex U.S. Large-Mid Index is an index that measures the performance of Global Markets (ex-U.S.) equity markets targeting the top 90% of stocks by market capitalization. The Morningstar DM ex U.S. Large-Mid Index is an index that measures the performance of developed markets ex-U.S. equity markets targeting the top 90% of stocks by market capitalization. The Morningstar EM Large-Mid Index is an index that measures the performance of emerging markets targeting the top 90% of stocks by market capitalization. The Barclay's Capital U.S. Aggregate Bond® Index measures the performance of the total United States investment-grade bond market. The Morningstar Cash Index is an index that measures the performance of a Treasury Bill with six to eight weeks until maturity in the U.S. market. The Morningstar Diversified Alternatives Index allocates among a comprehensive set of alternative underlying ETFs that employ alternative and non-traditional strategies such as long/short, market neutral, managed futures, hedge fund replication, private equity, infrastructure or inflation-related investments. The Bloomberg Commodity Index is made up of exchange-traded futures on physical commodities and represents commodities that are weighted to account for economic significant and market liquidity. This index provides investors with a means of understanding the performance of commodity futures markets and serves as a benchmark for investment performance of commodities as an asset class. The S&P 500 Index is an unmanaged index of 500 large-capitalization companies. This index is widely used by professional investors as a performance benchmark for large-cap stocks. The volatility of the indexes may be materially different from the individual performance attained by a specific investor. In addition, portfolio holdings of investors may differ significantly from the securities that comprise the indexes. You cannot invest directly in an index.

CLS Strategies are not sponsored, endorsed, sold or promoted by Morningstar, Inc. or any of its affiliates (all such entities, collectively, "Morningstar Entities"). The Morningstar Entities make no representation or warranty, express or implied, to the owners of the CLS Strategies or any member of the public regarding the advisability of investing in CLS Strategies generally or in the specific strategy presented here in particular or the ability of the CLS Strategies to track general market performance.

THE MORNINGSTAR ENTITIES DO NOT GUARANTEE THE ACCURACY AND/OR THE COMPLETENESS OF THE CLS STRATEGIES OR ANY DATA INCLUDED THEREIN AND MORNINGSTAR ENTITIES SHALL HAVE NO LIABILITY FOR ANY ERRORS, OMISSIONS, OR INTERRUPTIONS THEREIN.

Any graphs and charts contained in this work are for informational purposes only. No graph or chart should be regarded as a guide to investing. While some portfolios may contain one or more of the specific funds mentioned, Orion Advisor Solutions, LLC (OAS) is not making any comment as to the suitability of these, or any investment product for use in any portfolio. The views expressed herein are exclusively those of OAS, and are not meant as investment advice and are subject to change. No part of this report may be reproduced in any manner without the express written permission of OAS. Information contained herein is derived from sources we believe to be reliable, however, we do not represent that this information is complete or accurate and it should not be relied upon as such. This material does not constitute any representation as to the suitability or appropriateness of any security, financial product or instrument. There is no guarantee that investment in any program or strategy discussed herein will be profitable or will not incur loss. This information is prepared for general information only. It does not have regard to the specific investment objectives, financial situation, and the particular needs of any specific person who may receive this report. Investors should seek financial advice regarding the appropriateness of investing in any security or investment strategy discussed or recommended in this report and should understand that statements regarding future prospects may not be realized. Investors should note that security values may fluctuate and that each security's price or value may rise or fall. Accordingly, investors may receive back less than originally invested. Past performance is not a guide to future performance. Individual client accounts may vary. Investing in any security involves certain non-diversifiable risks including, but not limited to, market risk, interest-rate risk, inflation risk, and event risk. These risks are in addition to any specific, or diversifiable, risks associated with particular investment styles or strategies.

The CFA® is a globally respected, graduate-level investment credential established in 1962 and awarded by CFA Institute — the largest global association of investment professionals. To learn more about the CFA charter, visit www.cfainstitute.org.

ORION

Contact Us Today

17605 Wright Street | Omaha, NE 68130

402.895.1600 | orion.com

0644-OAS-3/16/2002