

Market Volatility – Focus on What You Can Control



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June 2, 2020

Create Opportunities

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Presenters

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Our Current Market Environment

- The coronavirus pandemic has impacted global markets, increasing market **volatility** and shaking investor **confidence**.
- The drop was largely driven by ever-increasing **fears** about the potential effects of the coronavirus (COVID-19) and its ultimate impact on the global economy. Although many market observers contend that the market was overvalued and due for a correction, the **unpredictability**, strength, and suddenness of the historic tumble was unnerving for even the most seasoned investors.
- The current market volatility provides an **opportunity** for investors who do not allow **emotions** to rule their investment decisions.



Our Environment is Constantly Changing



Market Declines are a Natural Part of Investing

Problem: Declines can cause imprudent behavior by filling investors with dread and panic.

Solution: Realize that declines are inevitable and have not lasted forever.

History has shown that stock market declines are a natural part of investing. While declines have varied in intensity and frequency, they have been somewhat regular events. It may also reassure you to know that the market has always recovered from declines. Although past results don't guarantee future results, remembering that downturns have been temporary may help temper your fears.



Risk is a complex concept—it is always present, even if it has not been realized, and it cannot be directly observed until it occurs.



What Can History Teach Us?

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Volatility Happens

Market Declines, don't last forever

A history of market declines

Standard & Poor's 500 Composite Index (1950-2019)

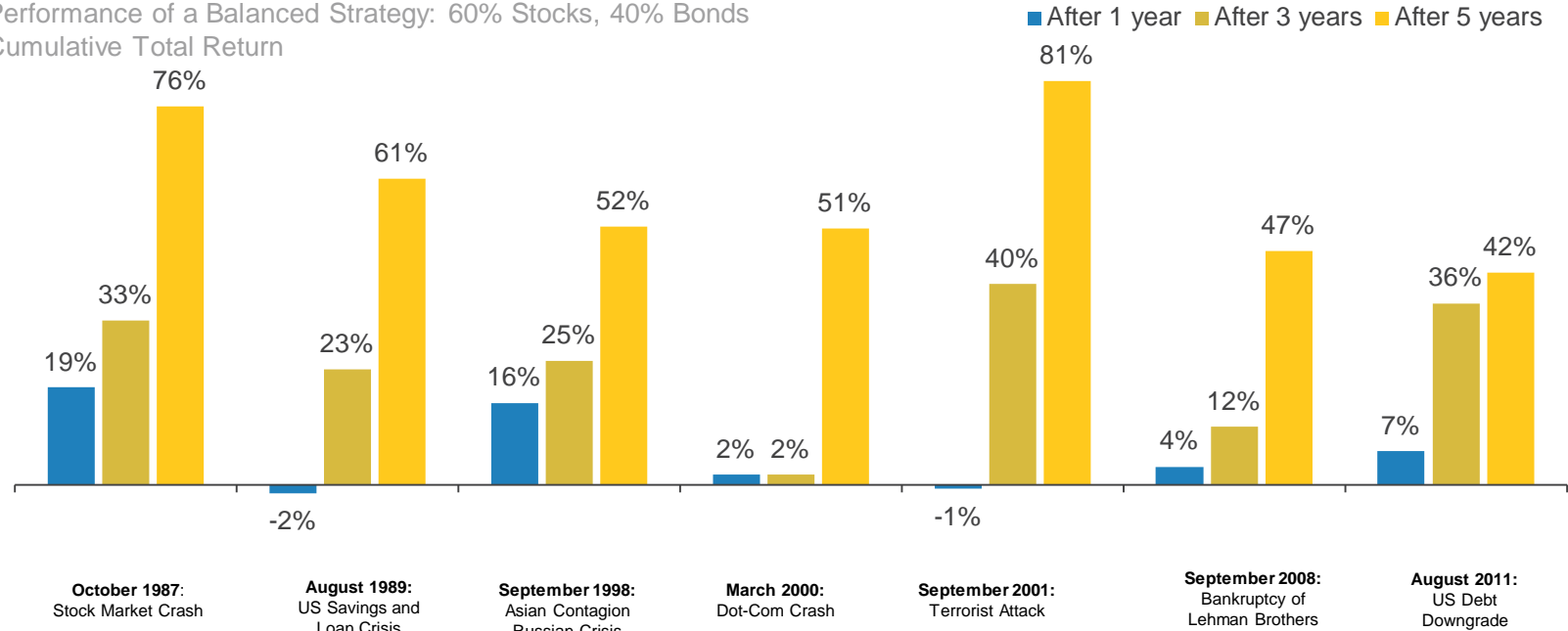
Size of decline	-5% or more	-10% or more	-15% or more	-20% or more
Average frequency*	About three times per year	About once per year	About once every four years	About once every six years
Average length†	43 days	112 days	262 days	401 days
Last occurrence	August 2019	December 2018	December 2018	December 2018

* Assumes 50% recovery of lost value. † Measures market high to market low.

Sources: Capital Group, Standard & Poor's

The Market's Response to Crisis

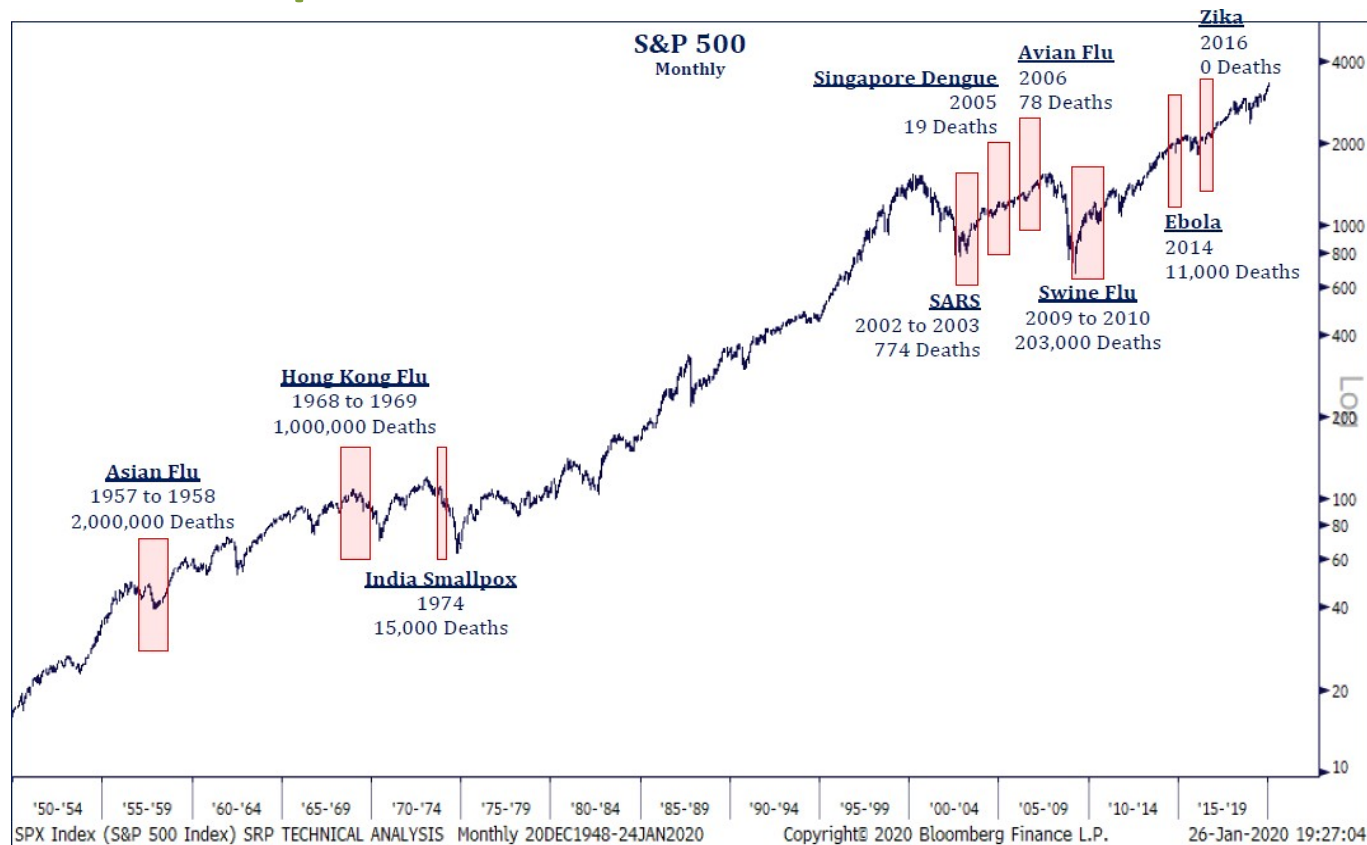
Performance of a Balanced Strategy: 60% Stocks, 40% Bonds
Cumulative Total Return



- 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 BofAML 1-Year US Treasury Note Index. Assumes monthly rebalancing. For illustrative purposes only. S&P and Dow Jones data © 2019 S&P Dow Jones Indices LLC, a division of S&P Global. All rights reserved. ICE BofAML index data © 2019 ICE Data Indices, LLC. FTSE fixed income indices © 2019 FTSE Fixed Income LLC. All rights reserved. Bloomberg Barclays data provided by Bloomberg.
- Dimensional indices use CRSP and Compustat data.
- 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. Not to be construed as investment advice. Returns of model portfolios are based on back-tested model allocation mixes designed with the benefit of hindsight and do not represent actual investment performance. See "Balanced Strategy Disclosure and Index Descriptions" pages in the Appendix for additional information.



The Market's Response to Health Related Crisis



Past performance is no guarantee of future results. It is not possible to invest directly in an index. All market indices are unmanaged.

Source: Strategas, as of 01/27/2020 For Investor Use



Create Opportunities



Investor Behaviors

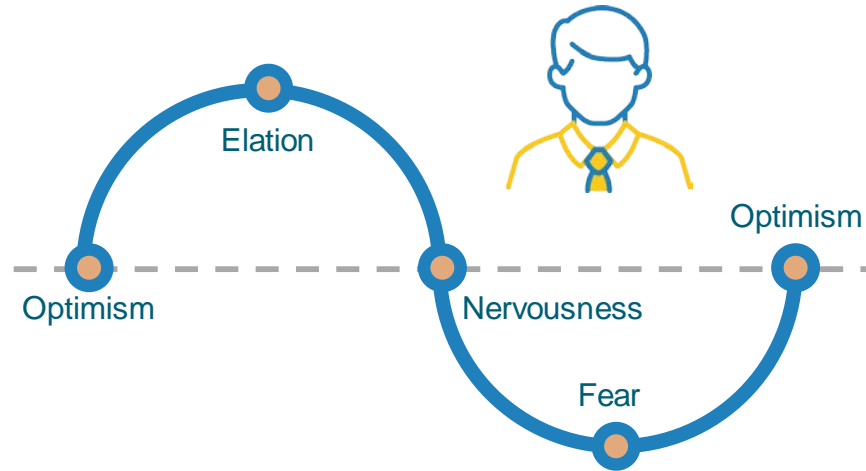
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Many Investors Follow Their Emotions

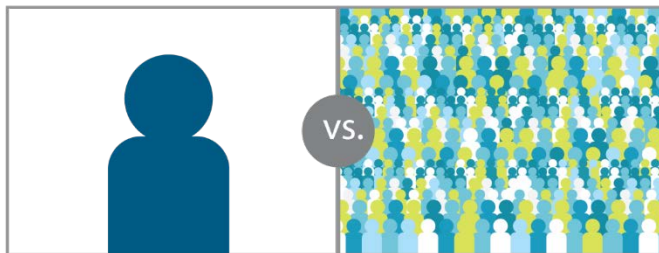
People may struggle to separate their **emotions** from their investment decisions.

Following a reactive cycle of excessive optimism and fear may lead to poor decisions at the worst times.



Let the Market Work for You

When you try to outwit the market, you compete with the collective knowledge of all investors.



By harnessing the market's power, you put their knowledge to work in your portfolio.

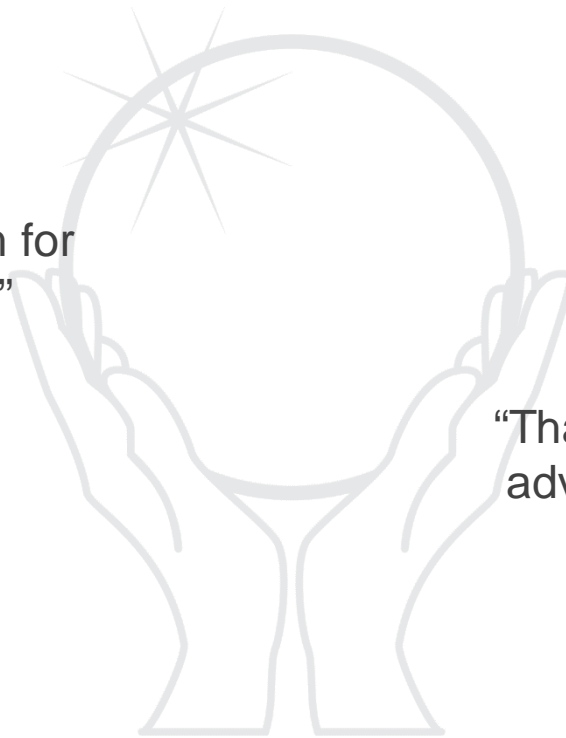


Predicting the Future

“I have a proven system for picking winning stocks.”

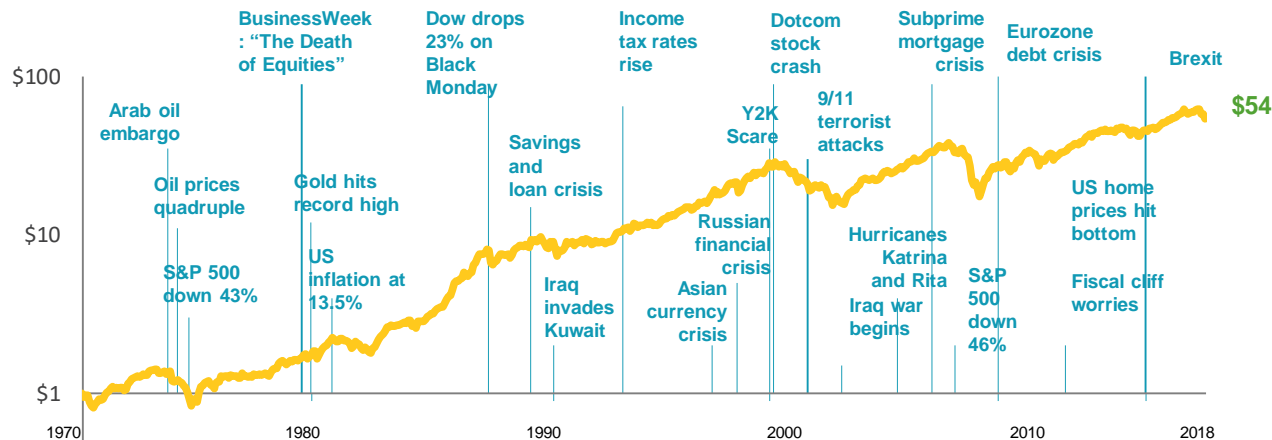
“That sector will continue advancing through next year.”

“The market is primed for a retreat.”



Markets Have Rewarded Discipline

Growth of a dollar—MSCI World Index (net dividends), 1970–2018



A **disciplined** investor looks beyond the concerns of today to the long-term growth potential of markets.



In US dollars. MSCI data © MSCI 2019, all rights reserved. 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 no guarantee of future results.





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Strategy #1

Have a Plan



Your successful financial journey begins with a complete **roadmap** specific to your needs and the aspirations you have for yourself, your family, and your business.

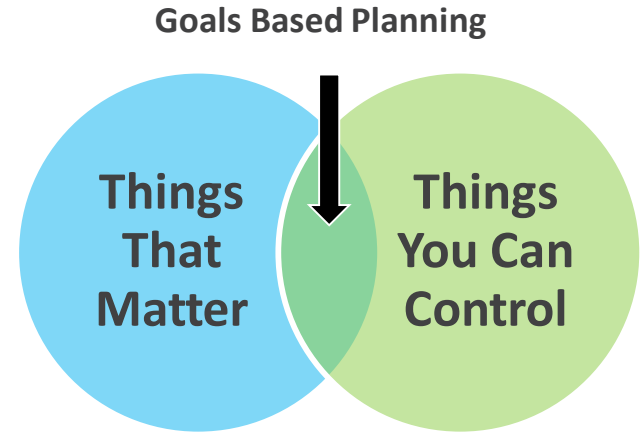
Financial planning is important because it allows you to make the most of your assets, and helps ensure you meet your future goals.



Goals-based Financial Planning

Using a **goals-based approach**, you'll be able to evaluate where you are today and create strategies to get you where you want to be.

A truly holistic planning approach will consider all aspects of your financial life — including investments, budgeting, education planning, risk management, tax planning, estate planning, and retirement planning, among other areas.



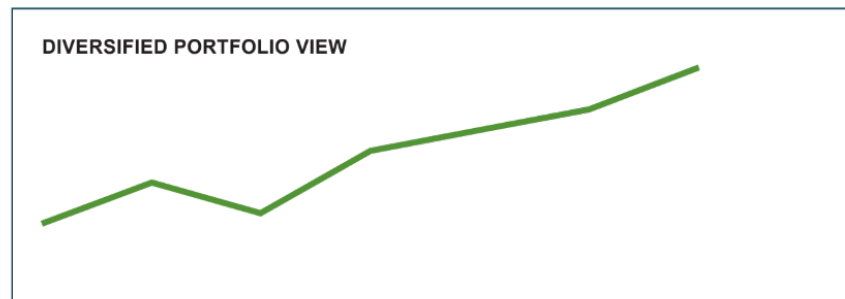
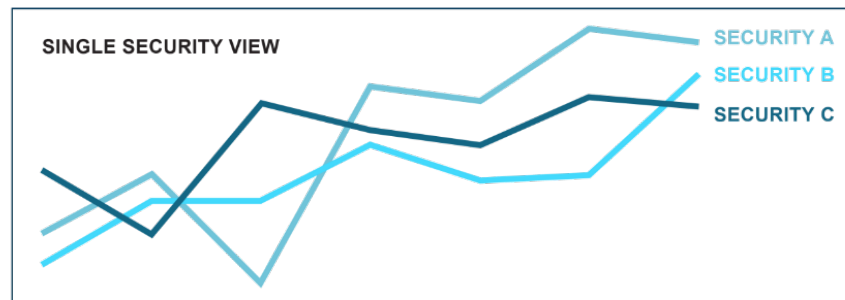
A financial Plan can be helpful during turbulent times preventing emotions from dictating your decisions.

Strategy #2

Diversify Your Portfolio

A **well-diversified portfolio** can provide the opportunity for a more stable outcome than a single security.

When the market goes off the tracks, knowing why you originally made a specific investment can help you evaluate whether your reasons still hold, regardless of what the overall market is doing.



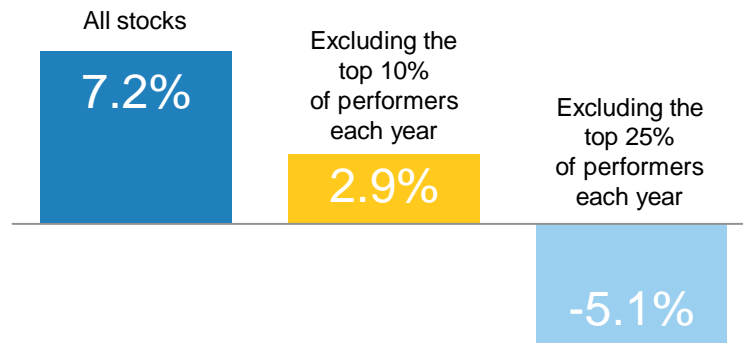
**Diversification smooths
out some of the bumps**

Benefits of Diversification

Compound average annual returns: 1994–2018

Research shows there is no reliable way to **predict** top performers.

Broad diversification helps reduce unnecessary idiosyncratic risk.¹

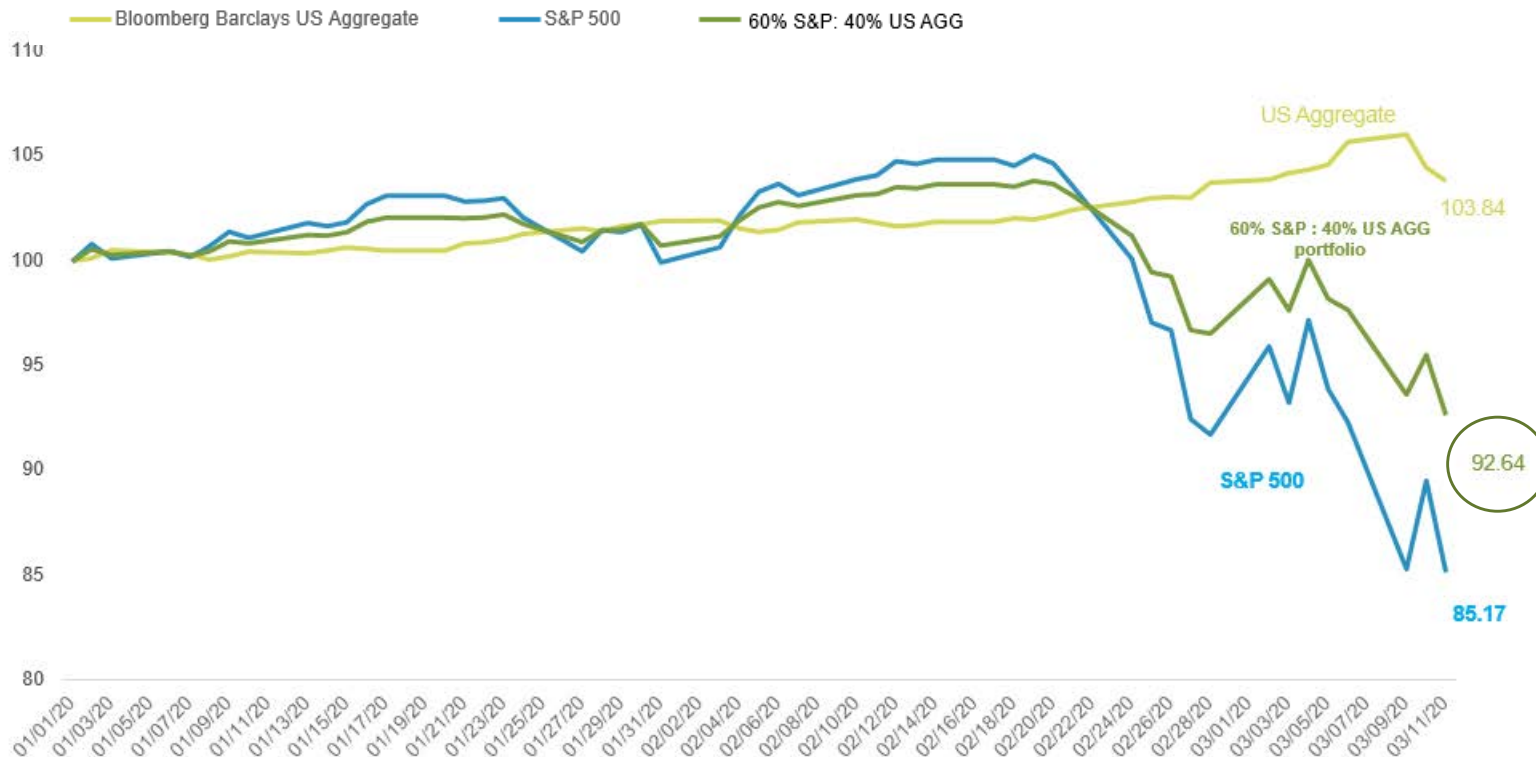


1. Idiosyncratic risk is unsystematic (diversifiable) risk associated with exposure to a single stock, sector, or country.

All stocks includes all eligible stocks in all eligible Developed and Emerging Markets at their market cap weights. Eligible stocks are required to meet a minimum market capitalization requirement. REITs and investment companies are excluded. Compound average annual returns are computed as the compound returns of the value-weighted averages of the annual returns of the included securities. *Excluding the top 10%* and *Excluding the top 25%* are constructed similarly, but exclude the respective percentages of stocks with the highest annual returns by security count each year. Individual security data are obtained from Bloomberg, London Share Price Database, and Centre for Research in Finance. The eligible countries are: Australia, Austria, Belgium, Brazil, Canada, Chile, China, Colombia, Czech Republic, Denmark, Egypt, Finland, France, Germany, Greece, Hong Kong, Hungary, India, Indonesia, Ireland, Israel, Italy, Japan, Republic of Korea, Malaysia, Mexico, Netherlands, New Zealand, Norway, Peru, Philippines, Poland, Portugal, Russia, Singapore, South Africa, Spain, Sweden, Switzerland, Taiwan, Thailand, Turkey, United Kingdom, and the United States. Diversification does not eliminate the risk of market loss. Past performance is no guarantee of future results.



Diversification May Help Mitigate Losses



Past performance is no guarantee of future results. It is not possible to invest directly in an index. All market indices are unmanaged.

Diversification does not ensure a profit or guarantee against a loss.

For illustrative purposes only.

Source: Factset, as of 03/11/2020 For Investor Use



Strategy #3

Stay Disciplined

Investor discipline is the ability to **avoid** reacting to sudden shifts in the markets. Persevering through market declines allows investors to avoid recognizing potential portfolio losses.

Don't miss out on potential market **rebounds**. Although recoveries aren't guaranteed, taking your money out of the market during declines means that if you don't get back in at the right time, you'll miss the full benefit of market recoveries.

Having a solid asset allocation is the basis of sound investing and helpful in maintaining investor discipline while riding the ups and downs of the market.



Don't try to time
the market

Picking the Fastest Lane Is a Stressful Guessing Game

Likewise, trying to anticipate the movement of the market adds anxiety and undue risk.

A **financial advisor** can offer expertise and guidance to help you focus on investment solutions and actions to add value to your portfolio. This can lead to a better investment experience.

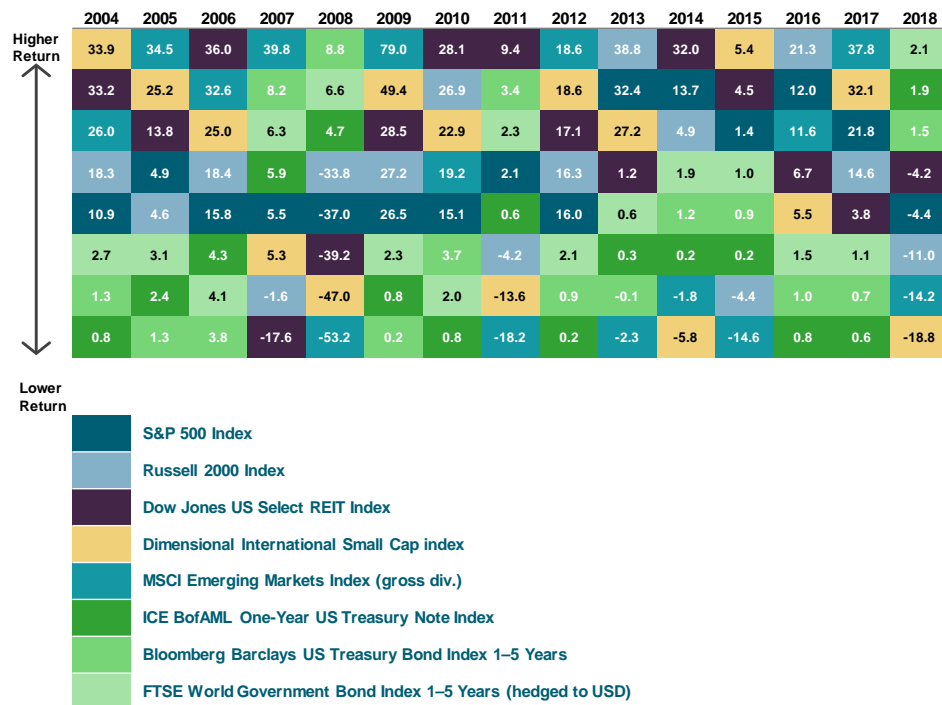


Remove the Guesswork Out of Investing

Annual returns (%): 2004–2018

You never know which markets will outperform from year to year.

By holding a globally diversified portfolio, investors are positioned to capture returns wherever they occur.

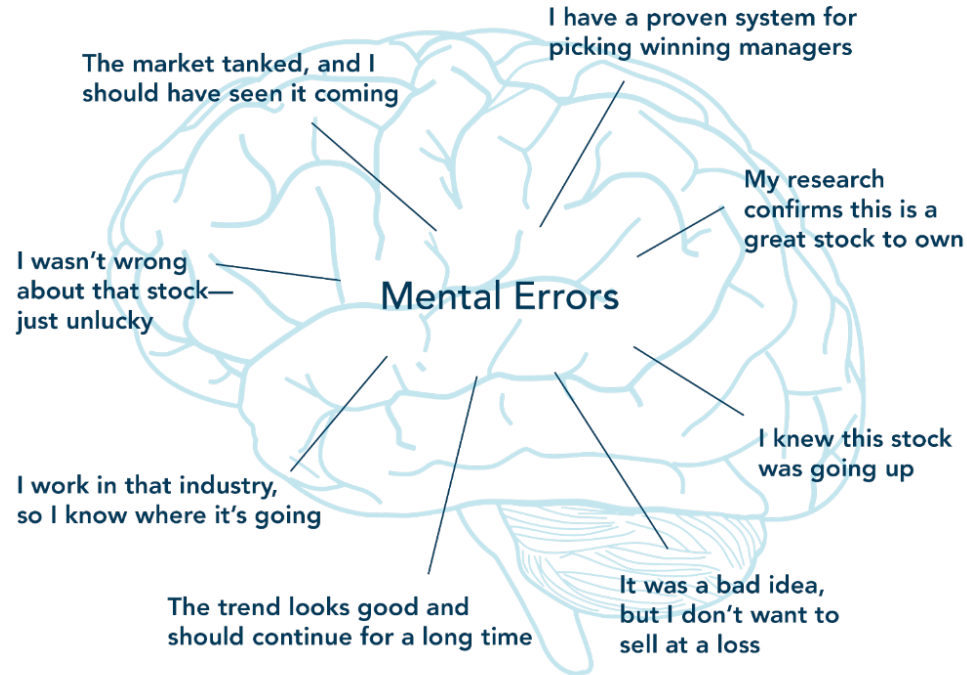


In US dollars. Source: S&P and Dow Jones data © 2019 S&P Dow Jones Indices LLC, a division of S&P Global. All rights reserved. Frank Russell Company is the source and owner of the trademarks, service marks, and copyrights related to the Russell Indexes. Dimensional Index data compiled by Dimensional. MSCI data © 2019, all rights reserved. ICE BofAML Index data © 2019 ICE Data Indices, LLC. Bloomberg Barclays data provided by Bloomberg. FTSE fixed income indices © 2019 FTSE Fixed Income LLC. All rights reserved. See "Index Descriptions" in the appendix for descriptions of Dimensional's index data. Diversification does not eliminate the risk of market loss. Past performance is not a guarantee of future results. Indices are not available for direct investment. Their performance does not reflect expenses associated with the management of an actual portfolio.



Humans Are Not Wired for Disciplined Investing

When people follow their natural instincts, they tend to apply faulty reasoning to investing.



Strategy #4

Stay the course

Focus on the long-term by staying the course. If the value of your holdings fluctuates this could lead to reactive emotional decisions. By staying in the market and practicing disciplined investment strategies you'll continue on the path to your long-term goals. One of the most important tools you have is time.

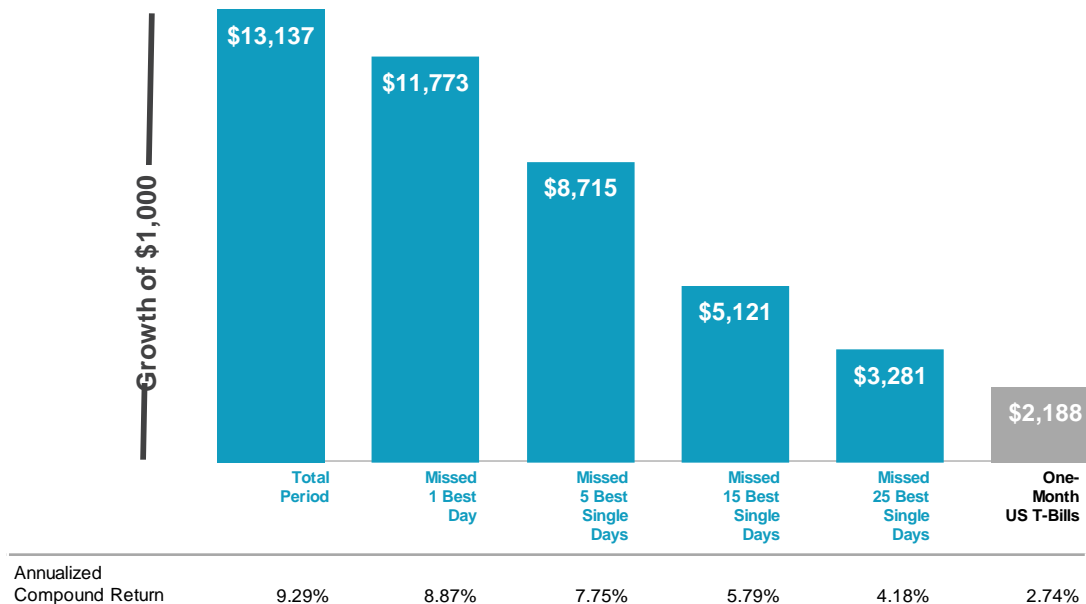
Prudent investors stay the course, with the understanding that investment success is not just a matter of how well you do in up markets but also how well you weather the downside.



Stay disciplined through market dips and swings.

Reacting Can Hurt Performance

Performance of the S&P 500 Index, 1990–2018



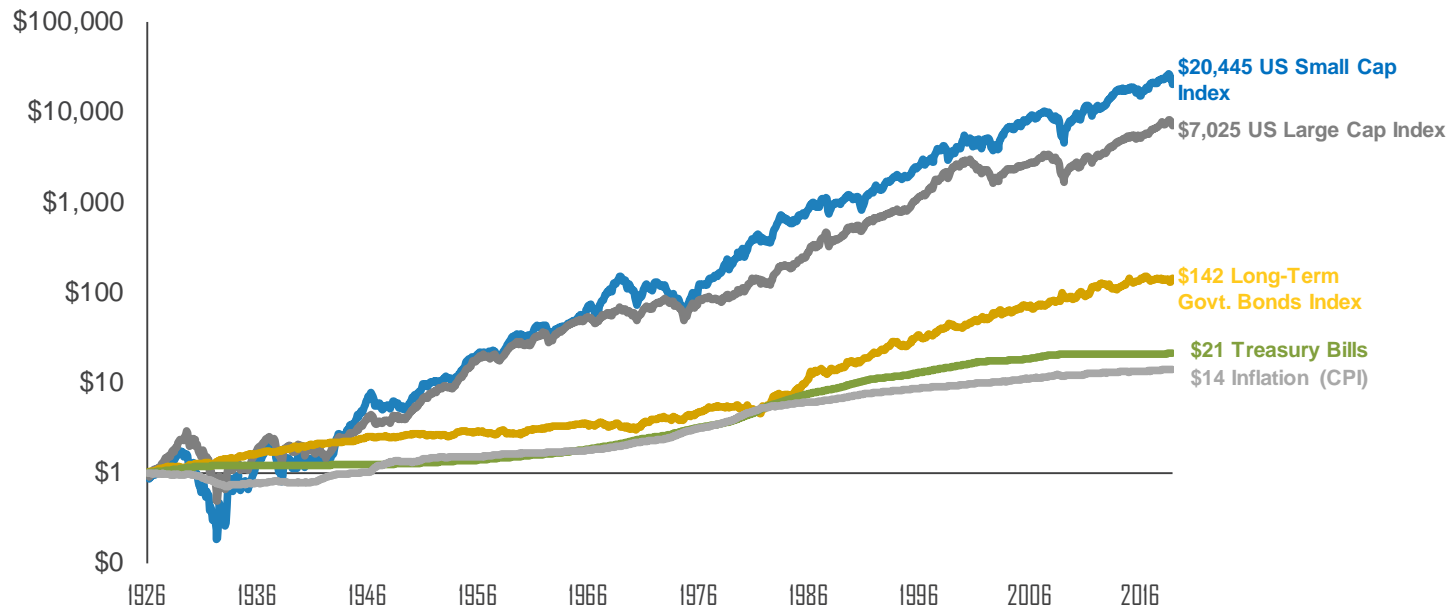
Missing only a few days of strong returns can drastically impact overall performance.

- In US dollars. For illustrative purposes. The missed best day(s) examples assume that the hypothetical portfolio fully divested its holdings at the end of the day before the missed best day(s), held cash for the missed best day(s), and reinvested the entire portfolio in the S&P 500 at the end of the missed best day(s). Annualized returns for the missed best day(s) were calculated by substituting actual returns for the missed best day(s) with zero.
- S&P data © 2019 S&P Dow Jones Indices LLC, a division of S&P Global. All rights reserved. "One-Month US T-Bills" is the 1A SBB1 US 30 Day TBill TR USD, provided by Ibbotson Associates via Morningstar Direct. Data is calculated off rounded daily index values. 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.



Capital Markets Have Rewarded Long-Term Investors

Monthly growth of wealth (\$1), 1926–2018



Create an investment plan to fit your **needs** and **risk tolerance**.

In US dollars.

US Small Cap Index is the CRSP 6–10 Index; US Large Cap Index is the S&P 500 Index; Long-Term Government Bonds Index is 20-year US government bonds; Treasury Bills are One-Month US Treasury bills; 1-Month Treasury Bills Index is the 1A SBBI US 30 Day T-Bill TR USD. Treasury index data sourced from Ibbotson Associates, via Morningstar. Direct Inflation is the Consumer Price Index. CRSP data provided by the Center for Research in Security Prices, S&P data © 2019 S&P Dow Jones Indices LLC, a division of S&P Global. All rights reserved. Bonds, T-bills, and inflation data provided by Morningstar.

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Summary

Market Volatility – Focus on what you can control.

Successful investing involves more than picking a top performing fund, especially during volatile markets. Volatility is a natural part of market cycles. When times gets difficult focus on what you can control.

- **Have a Plan**
- **Diversify Your Portfolio**
- **Investor Discipline**
- **Stay the Course**

Having a clear understanding of your goals and values can make it easier to stay focused on the things that matter the most to you. Take the time to set financial goals, think big, and get inspired. CLA is here to help you at every step of the process with objective advice and a personal connection to people committed to your success.



Questions?

If you still have questions about how the changing market dynamics are affecting your portfolio, contact your financial professional.

Contact Us

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Thank You

