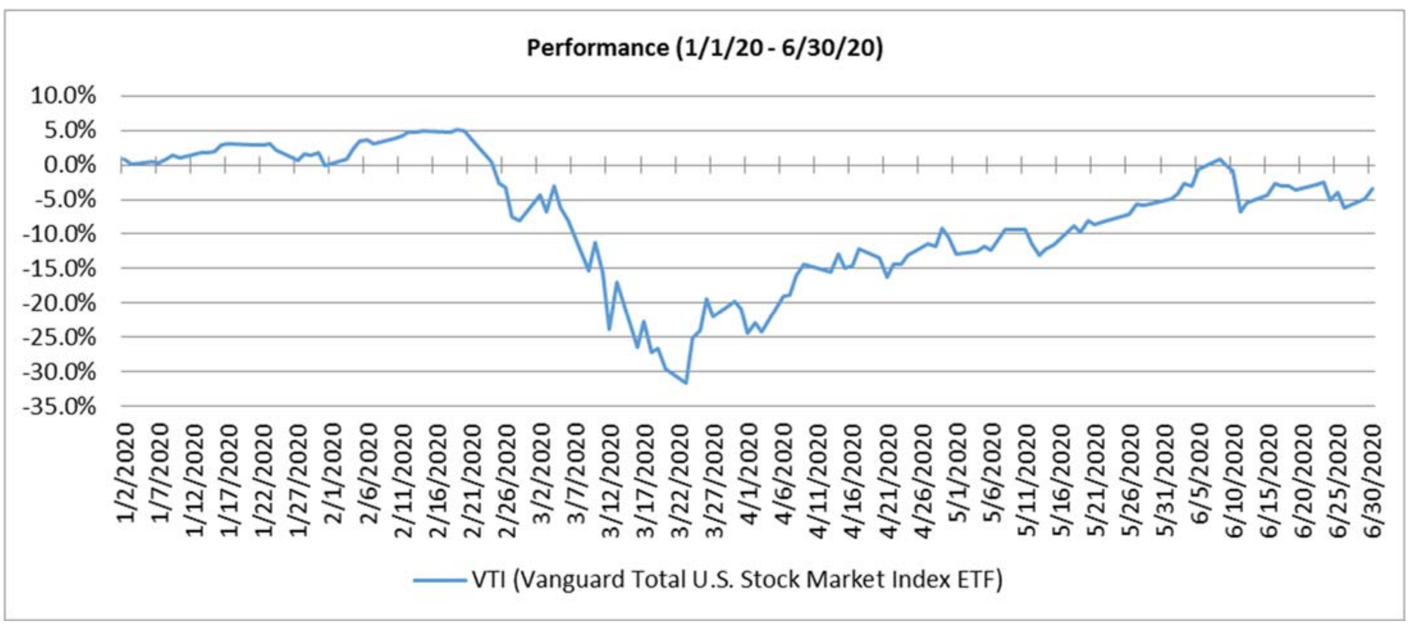
Remember:
Recoveries have rewarded patience

If you've ever taken an economics course, you might remember this basic principle: Economies and financial markets, such as the stock and bond markets, move in cycles. That is, you can count on markets to experience lows when prices fall and peaks when prices reach their highest. While no one has perfected the science of knowing exactly when those lows and highs will occur, you know the financial markets (and most global economies) will eventually come back around2.

This underscores the importance of maintaining a diversified, properly balanced portfolio (versus a highly concentrated, non-diversified one), which can more effectively withstand the shock of a market downturn. Perhaps more important, the inevitability of market cycles illustrates why reactive selling amid a downturn is harmful in the long run2.

When the financial markets are in turmoil and account balances start to fall, there can be a strong temptation to "do something" to stem any perceived losses. Yet it is often the case that staying the course – or doing nothing – proves to be the better path2.

So, where is the U.S. stock market for the year? Only down -3.42% as of 6/30/20201. This is much different than the -31.60% experience on 3/23/2020.



When markets are as volatile as what we've been experiencing, it can actually be a good time to make progress toward long-term financial objectives. No matter what's happening in the economy and financial markets, we're always on the lookout for ways to bring you closer to your goals. The current situation presented us with opportunities to "clean up", or fine tune a few aspects of your portfolio, and how you access money to sustain your retirement.

Your team has been working diligently to review your financial objectives and evaluate your portfolio allocation based on independent variables such as near-term cash-flow expectations, age, and risk tolerance. Below is an example of how your TD Capital team applies these factors:

Client Age: 70

Cash Needs (living expenses): $7,000/month

Specific cash need (car purchase): $50,000

Portfolio Value: $2,500,000

Risk Tolerance: Moderately Aggressive

1. Cash-flow: The first step is to identify the near-term cash needs from the portfolio and protect them from volatility. We simply plan for these needs on a rolling 5-year basis (average market cycle) and place this amount in 0-5 year investment grade bonds, allowing the residual amount (portfolio value minus 5-year cash needs) to be invested in a more growth-oriented manner for replenishing the cash-needs in future years and protecting the portfolio from inflation.

			EQUITY	FIXED
TOTAL PORTFOLIO		2,500,000		
Specific Need: Car purchase		50,000		$50,000
NET PORTFOLIO		2,450,000		
Cash Needs (living): $7,000/mo * 60		420,000		$420,000
Residual Portfolio (80/20)		2,030,000	$1,624,000	$406,000
		TOTAL ALLOCATION	$1,624,000	$876,000
			65%	35%

2. Age: The next step is to weight the portfolio according to age - heavier in stocks if younger and lighter in stock if older. The longer the investment horizon, the greater volatility can be absorbed. We utilize an age factor of "120" and subtract your age to determine the amount allocated to stocks.

Client Name	Date of Birth	Age	EQUITY	FIXED
Client Name	6/1/1950	70	50%	50%

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3. Risk Tolerance: Last, we apply a risk score to the portfolio, which tells us how conservative or aggressive an investor you may be. What this really means to us is how comfortable you are "doing nothing" during volatile times. The risk of selling equities when they are down will greatly impact the sustainability of a future plan. We arrive this score by previous experience and potential life changes/future risks. These factors are continually discussed and evaluated. For this Moderately Aggressive investor, we are applying a risk score of 70% (0 being the most conservative and 100 being the most aggressive)

Stock / Bond Mix	Average Return	Growth of $100,000	Best 3-Month	Worst 3-Month	Best 1-Year	Worst 1-Year
0 / 100	6.01%	$593,574	6.11%	-4.93%	18.56%	-3.63%
10 / 90	6.40%	$658,670	6.63%	-5.16%	19.79%	-4.21%
20 / 80	6.76%	$731,640	7.55%	-7.54%	21.12%	-9.18%
30 / 70	7.11%	$807,764	9.71%	-10.36%	22.45%	-14.41%
40 / 60	7.44%	$886,374	12.15%	-13.49%	25.77%	-19.41%
50 / 50	7.75%	$966,680	14.62%	-16.55%	30.17%	-24.16%
60 / 40	8.03%	$1,047,776	17.12%	-19.54%	34.68%	-28.70%
70 / 30	8.30%	$1,128,650	19.66%	-22.46%	39.30%	-33.01%
80 / 20	8.54%	$1,208,200	22.24%	-25.31%	44.05%	-37.11%
90 / 10	8.76%	$1,285,258	24.85%	-28.09%	48.92%	-41.01%
100 / 0	8.96%	$1,358,611	27.50%	-30.81%	53.91%	-44.71%
*9/11/1989 - 1/28/2020						
** Data provided by Morningstar: S&P 500 TR, MSCI EAFE NR USD, BBgBarc US Agg Bond TR USD						

By averaging the three factors above, we can comfortably recommend an allocation to equities that addresses all aspects of the client's financial life: 65% (based on cash needs), 50% (based on age), and 70% based on risk tolerance = 62%.

Should you have questions regarding your portfolio or wish to discuss the factors used to arrive at your portfolio allocation, please do not hesitate to reach out to us.

Sources:

1. *https://finance.yahoo.com*
2. *https://advisors.vanguard.com/VGApp/iip/advisor/csa/literatureforms/forms*