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TAGStone CAPITAL INC

First Quarter 2020

FIRST QUARTER MARKET OVERVIEW

Stocks around the globe plunged in historic fashion in First Quarter 2020 as the financial markets tried to assess the impact of the COVID-19 pandemic and the economic fallout from it. While the first half of the quarter was relatively calm, the second half saw the major stock indices decline by about 40% in just a month's time. A rapid bounce-back at the end of March helped stocks recover some of their losses before the end of the quarter.

In the U.S., the Dow Jones Industrial Average ended First Quarter with a decline of 22.73%, while the broader S&P 500 index fell 19.60%. Meanwhile, the Russell 2000 small stock index fell 30.61%.

Foreign stocks did not fare any better during the selloff. The MSCI EAFE index of large stocks in Europe, Austral, and the Far East dropped 22.83% in First Quarter, while the MSCI EAFE Small-Cap index declined 27.52%.

Alternative asset classes also saw broad declines during the quarter. The Dow Jones U.S. Select REIT (real estate) stock index fell 28.52%, while the Dow Jones Global REIT index fell 32.50%. Meanwhile, the MSCI Emerging Markets index declined 23.60%.

Fixed income provided some relief to balanced portfolios during the selloff. The Barclays U.S. Aggregate Bond index gained 3.15%.

Uncertainty breeds volatility but long-term investors can stay put in their well-diversified portfolios.

Hunkering Down in Turbulent Times

"What the imagination can't conjure, reality delivers with a shrug."

—Trumbo (movie voice-over)

Brace yourself. Your First Quarter 2020 report is likely to leave you feeling at least a little disheartened. No matter how much we've written about preparing for perilous times like these, planning for it versus actually enduring it is like watching a tornado on YouTube versus being swept into one in real life.

Yet, we stand by our advice. For emotional and financial turbulence alike, your best bet when you're in the eye of a storm is to hunker down, and trust in preparations already made.

If you're comfortable with how we've been managing your wealth so far, expect more of the same. As your steadfast fiduciary advisor, we will continue to help you implement the kinds of investment opportunities that make sense for you and your portfolio. These may include:

- **Rebalancing** your portfolio when warranted, to stay on course toward your long-term goals.
- **Tax-loss harvesting** where practical, to offset the costs of recently incurred and/or future taxable gains. (Yes, we still fully expect to see future market growth!)

SELECTED 2020 EQUITY INDICES

	Mar. '20	1st Qtr.	YTD
S&P 500 Total Return (Large-Cap Stocks)	-12.35%	-19.60%	-19.60%
Russell 2000 Total Return (Small-Cap Stocks)	-21.73%	-30.61%	-30.61%
MSCI EAFE (Developed International Stocks)	-13.35%	-22.83%	-22.83%
MSCI Emerging Markets (International Emerging Stocks)	-15.40%	-23.60%	-23.60%

SELECTED 2020 FIXED INCOME INDICES

	Mar. '20	1st Qtr.	YTD
Barclays U.S. Aggregate (Broad Domestic Bonds)	-0.59%	3.15%	3.15%
Barclays 1-5 Yr. Credit (Short-Term Domestic Bonds)	-2.88%	-1.22%	-1.22%
Barclays 5-10 Yr. Credit (Intermediate-Term Domestic Bonds)	-7.10%	-3.87%	-3.87%
Barclays U.S. TIPS (Treasury Inflation Protected Securities)	-1.76%	1.69%	1.69%
FTSE World Gov't 1-5 Yr. Hedg'd (Short-Term Global Bonds)	0.78%	2.25%	2.25%

- **Roth IRA conversions** when they may benefit your retirement planning.
- **Seizing other opportunities** when your plans call for it. For example, if you've been holding a concentrated stock position to avoid incurring taxable gains, now may be the perfect time to reduce your risks and strengthen your portfolio by selling all or part of that position.

If, on the other hand, you've begun to seriously question your course, think of current conditions as a stress test. Is the risk tolerance you thought you had holding up for you?

Ask yourself objectively: *Can I tough out the fears I'm feeling right now?* If so, we encourage you to stick with your existing investment allocations despite the angst.

What if you decide your portfolio is no longer appropriate for you? If that's the case, let's get together promptly to plan your next steps. Above all, your wealth should be structured to enhance your personal well-being. If that's not what's happening, we welcome the opportunity to help you adjust your portfolio accordingly.

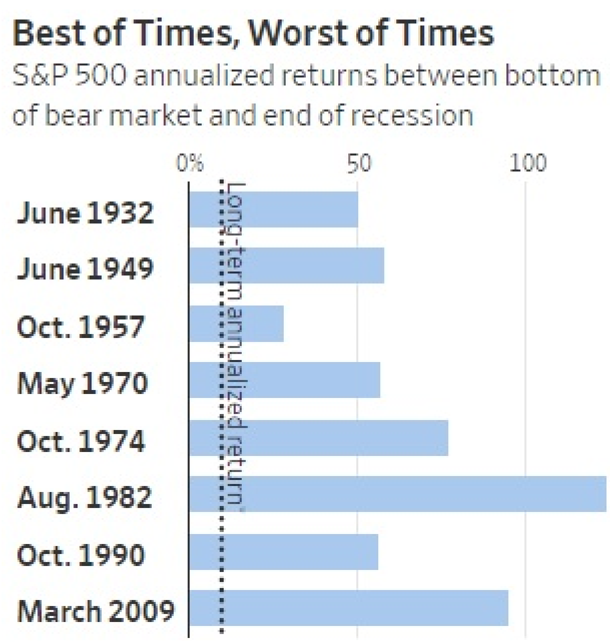
Another question often asked during market extremes goes something like this: *I'm okay with my portfolio mix, but why not get out of the markets temporarily until the worst is over?*

Whether we leave your portfolio as is, or help you permanently reduce some of its risk exposure, we will never recommend trying to accurately time when to cleverly get out of, and safely jump back into volatile markets. While nobody knows exactly when a recovery will occur, history has informed us of what typically happens when it does. A recent *Wall Street Journal* piece explains, using the bull market that began back in 2009 as an illustration (emphasis ours)[1]:

> "***A surprising share of a new bull market's returns pile up in its very early stages when people are most fearful***. Take the one that ended last month. Putting $100,000 into an S&P 500 index fund on the day the bull began on March 9, 2009 and selling at last month's peak would have seen that turn into $630,000 including dividends. Waiting just three months to make sure it wasn't yet another head fake would have earned you only $450,000."

In other words, while most of us are still assuming there's no hope in sight, the markets can quietly and often dramatically make their big come-back … at least for those who have kept a portion of their wealth invested in them. The chart below shows the annualized return of the S&P 500 during eight recessions from the point when the bear market in stocks bottomed to when the recession ended in the real economy (i.e. stocks generally bottom several months before the recession ends).

As always, without the ability to see what is only apparent in hindsight, we encourage you to focus instead on that which you can control. Right now, that is mostly doing all you can to keep yourself and your loved ones out of harm's way. Please let us know how we can help.



*Long-term annual return from 1928 through 2019
Note: Dates listed above are the final months of each respective bear market in stocks
Source: S&P Dow Jones Indices

1. Jakab, Spencer, "How I Learned to Stop Worrying and Love the Bear Market," *The Wall Street Journal,* March 27, 2020.