FROM THE DESK OF THE CIO

Volatility In Perspective

February 27, 2020

The latest market activity may seem unusual, given low levels of volatility in recent years, but it is not.

Dear Clients:

If you have followed the news headlines in recent days, you have no doubt noticed the pervasive coronavirus reports and the related impact on capital market conditions. We have been tracking the developments closely as it relates to the potential civil and economic impact of the disease, as well its potential affect on your financial assets.

While the disease's bearing on society and global economies may be hard to quantify, at the moment, we have already seen negative ramifications for global communities and slowing markets for goods and services. We believe this will translate into negative economic outcomes for the first quarter and conditions may indeed persist through the second period. It appears the effects of this coronavirus strain (Covid-19) may be more pervasive than the SARS cases in 2003. Consequently, we believe the numbing influence on economies is likely to be more protracted. However, an eventual economic recovery remains well within our reasonable expectation.

Meanwhile, domestic and foreign health agencies have warned of the continued spread of the disease, and they are working on containment where they can. Several private and public institutions are combating the coronavirus at its core through accelerated medical processes. Exact timing on successful disease suppression and the availability of medical therapies is not known at this point. However, we are confident in the ingenuity of the global health community, particularly in the U.S.

From a financial market perspective, the recent drawdown in equities has curtailed what have been material gains in the stock market over the last 14 months. Some giveback to those gains was inevitable, in our view. Notably, the losses we have seen in recent days pales in comparison to the market gains we have witnessed over the last ten years. Since early 2009,through the end of 2019, the S&P 500 Index has gained approximately 340%. We believe this broader perspective may help remedy any impulse for a short-term reaction to recent days' losses. If we extend our perspective a bit further, the average intra-year decline for the S&P 500 Index, since 1981, is 13.9%. So while swift losses in the market are never ideal, a broader assessment may help ease current concern.

As we manage through this latest bout of volatility, we believe it is important that you know we have historically positioned financial assets, within our care, in a more conservative fashion. This is simply the way we approach financial market exposure for all client portfolios and all fiduciary relationships. Philosophically, we engage the market with the goal of participating in asset price upside while managing against the risk of sustained asset drawdowns. And in most client cases we manage directly, we take systematic steps to reduce equity exposure during protracted periods of weak asset prices. Further, we encourage all our fiduciary relationships to choose outside managers that pay strict attention to risk mitigation. While this philosophical approach does not perfectly buffer against all degrees of market volatility, we believe it may serve to ease some negative impact on the strategies we suggest as your fiduciary.

Why do we engage in this methodology? Given the speed with which this market trades and the influence of simple momentum on asset prices, we believe market participants should take a more guarded approach to asset allocation and investment choice. We do not seek to trade this market on a daily basis, and we would not encourage the practice for most investors. However, we believe all investors should consider the potential market effects traders, who do engage the market every day, can have on asset prices. Given that traders' rapid-fire activity and momentum-based trading is hard to hold in account, we believe it is best to approach this market using a more risk-averse portfolio strategy. To us, this means equity and other capital market exposures we suggest to clients must be different versus 5-10 years ago. Given the evolving market environment, we have become even more careful about the way we do our job.

Lastly, we want you to know that we take all periods of market volatility seriously and we are monitoring our investment practices in all cases to ensure we remain good stewards of capital...under all conditions. We are earnest in our approach. Should you have any questions regarding our investment philosophy, or seek additional clarity on current conditions, feel free to contact us directly. As always, we appreciate your confidence in us, and we strive to earn your trust daily.

Sincerely,

Marc A. Zabicki

Chief Investment Officer

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Our judgement or recommendations may differ materially from what may be presented in a long-term investment plan. Investors should consult with an investment advisor to determine the appropriate investment strategy and investment vehicle. Investment decisions should be made based on the investor's specific financial needs and objectives, goals, time horizon and risk tolerance.

Stock investing involves risk including loss of principle.

The S&P 500 Index is a capitalization weighted index of 500 stocks designed to measure performance of the broad domestic economy through changes in the aggregate market value of 500 stocks representing the major sectors of the U.S. economy.

Government bonds and Treasury bills are guaranteed by the US government as to the timely payment of principal and interest and, if held to maturity, offer a fixed rate of return and fixed principal value.

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