In this issue:

Portfolio performance: Choose your benchmarks wisely
Investor psychology: Behavioral biases that can lead to costly mistakes
Turbulent times: Bear markets come and go
Telemedicine: The virtual doctor will see you now

PORTFOLIO PERFORMANCE: CHOOSE YOUR BENCHMARKS WISELY

Dramatic market turbulence has been common in 2020, and you can’t help but hear about the frequent ups and downs of the Dow Jones Industrial Average or the S&P 500 index. The performance of these major indexes is widely reported and analyzed in detail by financial news outlets around the nation.

Both the Dow and the S&P 500 track the stocks of large domestic companies. But with about 500 stocks compared to the Dow’s 30, the S&P 500 comprises a much broader segment of the market and is considered to be representative of U.S. stocks in general. These indexes are useful tools for tracking stock market trends; however, some investors mistakenly think of them as benchmarks for the performance of their own portfolios.

It doesn’t make sense to compare a broadly diversified, multi-asset portfolio to just one of its own components. Expecting portfolio returns to meet or beat the market in good times is usually unrealistic, unless you are willing to expose 100% of your savings to the risk and volatility associated with stock investments. On the other hand, if you have a well-diversified portfolio, you might be happy to see that your portfolio doesn’t lose as much as the market when stocks are falling.

Asset allocation: It’s personal

Investor portfolios are typically divided among asset classes that tend to perform differently under different market conditions. An appropriate mix of stocks, bonds and other investments depends on the investor’s age, risk tolerance and financial goals.

Consequently, there may not be a single benchmark that matches your actual holdings and the composition of your individual portfolio. It could take a combination of several benchmarks to provide a meaningful performance picture. There are hundreds of indexes based on a wide variety of markets (domestic/foreign), asset classes (stocks/bonds), market segments (large cap/small cap), styles (growth/value) and other criteria.

The desire to become a more disciplined investor is often tested by the arrival of your account statements.
Keep the proper perspective

Seasoned investors understand that short-term results may have little to do with the effectiveness of a long-term investment strategy. Even so, the desire to become a more disciplined investor is often tested by the arrival of your account statements.

Making decisions based on last year’s—or last month’s—performance figures may not be wise, because asset classes, market segments and industries do not always perform the same from one period to the next. When an investment experiences dramatic upside performance, much of the opportunity for market gains may have already passed. Conversely, moving out of an investment when it has a down period could take you out of a position to benefit when that market segment starts to recover.

There’s nothing you can do about global economic conditions or the level of returns delivered by the financial markets, but you can control the composition of your portfolio. Evaluating investment results through the correct lens may help you make appropriate adjustments and plan effectively for the future.

The performance of an unmanaged index is not indicative of the performance of any specific security, and individuals cannot invest directly in an index. Asset allocation and diversification are methods used to help manage investment risk; they do not guarantee a profit or protect against investment loss. All investments are subject to market fluctuation, risk and loss of principal. Shares, when sold, may be worth more or less than their original cost. Investments that seek a higher return tend to involve greater risk.

INVESTOR PSYCHOLOGY: BEHAVIORAL BIASES THAT CAN LEAD TO COSTLY MISTAKES

The field of behavioral finance focuses on the emotional and cognitive aspects of investing. In recent decades, well-known economists have advanced the theory that investors’ decisions can be driven by human emotions such as greed and fear, which helps explain why asset prices sometimes fluctuate erratically.¹

It can be difficult to act rationally when your financial future is at stake, especially when unexpected events upset the markets. But understanding certain aspects of human nature, and your own vulnerabilities, might help you stay levelheaded in the heat of the moment. Every investment decision should take your financial goals, time horizon and risk tolerance into account. That’s why it’s important to slow down and try to consider all relevant factors and possible outcomes.

Here are six behavioral biases, which could also be called mental shortcuts or blind spots, that might lead you to make regrettable portfolio decisions:

1. Herd mentality. Many people can be convinced by their peers to follow trends, even if it’s not in their own best interests. When investors chase returns and follow the herd into “hot” investments, it can drive up prices to unsustainable levels and create asset bubbles that eventually burst. Joining the crowd and fleeing the stock market after it falls, and/or waiting too long (until prices have already risen) to reinvest, could harm your long-term portfolio returns.

2. Availability bias. People tend to base their judgments on information that immediately comes to mind. This could cause you to miscalculate risks or expected returns. In the same way that watching a movie about sharks can make it seem more dangerous to swim in the ocean, a recent news article can shape how you perceive the quality of an investment opportunity.

3. Confirmation bias. People also have a tendency to search out and remember information that confirms, rather than challenges, their current beliefs. If you have a good feeling about a certain investment, you may be more likely to ignore critical facts and focus on data that supports your opinion.

4. Overconfidence. Some individuals overestimate their skills, knowledge and ability to predict probable outcomes. When it comes to investing, overconfidence may cause you to trade excessively and/or downplay potential risks.

5. Loss aversion. Many investors dislike losses much more than they enjoy gains. Because it actually feels bad to experience a financial loss, you might avoid selling an investment that would realize a loss, even though it might be an appropriate course of action. An intense fear of losing money may even be paralyzing. Retirees and high net worth investors were more likely than other groups to say that their daily mood is sensitive to changes in their investment portfolios. The following illustrates the percentage of U.S. investors who say the performance of their investments affects their daily mood by a little or a lot.

<table>
<thead>
<tr>
<th></th>
<th>Retired</th>
<th>Not Retired</th>
</tr>
</thead>
<tbody>
<tr>
<td>Portfolio worth</td>
<td>63%</td>
<td>46%</td>
</tr>
<tr>
<td>$100,000+</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Portfolio worth less than $100,000</td>
<td>43%</td>
<td></td>
</tr>
</tbody>
</table>

Source: Gallup, 2019

6. Anchoring effect. When making decisions, people often depend heavily on the first information they receive, then adjust from that starting point based on new data. For investors, this translates into placing too much emphasis on an initial value (or purchase price) or on recent market performance. Investors who were “anchored” to the financial crisis may still be fearful of the stock market, even after years of strong returns. Another investor who has only experienced years of gains might be inclined to take on too much risk.

Even the most experienced investors can fall into these psychological traps. Having a long-term perspective and a thoughtfully crafted investing strategy may help you avoid expensive, emotion-driven mistakes. It might also be wise to consult an objective third party, such as a qualified financial professional, who can help you detect any biases that may be clouding your judgment.

All investing involves risk, including the possible loss of principal, and there is no guarantee that any investment strategy will be successful. Although there is no assurance that working with a financial professional will improve investment results, a financial professional can provide education, identify strategies and help you consider options that could have a substantial effect on your long-term financial prospects.

TURBULENT TIMES: BEAR MARKETS COME AND GO

The longest bull market in history lasted almost 11 years before coronavirus fears and the realities of a seriously disrupted U.S. economy brought it to an end. Bear markets are typically defined as declines of 20% or more from the most recent high, and bull markets are defined as sustained increases of 20% or more from the bear market low. But there is no official declaration, so often there are different interpretations and a fair amount of debate regarding when these cycles begin and end.

Between Feb. 19 and March 23, 2020, the S&P 500 fell 34% and then took just 15 days to bounce back above the 20% threshold that would technically mark the beginning of a new bull market. Still, most investors wait to see if volatility subsides and higher prices persist before they cheer the exit of a bear market. And in the midst of the pandemic, without a clear economic picture, it could be more difficult than usual to tell whether any market advance is a short-term rally or the start of a longer upward trend.

**Historical perspective**

The CBOE Volatility Index (VIX), a closely watched measure of stock market volatility and investor anxiety, hit all-time highs in March 2020. If you are losing sleep over volatility driven by disheartening news, it may help to remember that the economy and the stock market are cyclical. There have been 10 bear markets since 1950 (not counting the one that began in 2020). Each of these declines was triggered by a different set of circumstances, but the market recovered eventually every time (see table). 5

On average, bull markets lasted longer (1,955 days) than bear markets (431 days) over this period, and the average bull market advance (172.0%) was greater than the average bear market decline (~34.2%).

The bottom line is that neither the ups nor the downs last forever, even if they feel as though they will. There are buying opportunities in the midst of the worst downturns. And in some cases, people have profited over time by investing carefully just when things seemed bleakest.

<table>
<thead>
<tr>
<th>Bear markets since 1950</th>
<th>Calendar days to bottom</th>
<th>U.S. stock market decline (S&amp;P 500 Index)</th>
</tr>
</thead>
<tbody>
<tr>
<td>August 1956 to October 1957</td>
<td>446</td>
<td>-21.5%</td>
</tr>
<tr>
<td>December 1961 to June 1962</td>
<td>196</td>
<td>-28.0%</td>
</tr>
<tr>
<td>February 1966 to October 1966</td>
<td>240</td>
<td>-22.2%</td>
</tr>
<tr>
<td>November 1968 to May 1970</td>
<td>543</td>
<td>-36.1%</td>
</tr>
<tr>
<td>January 1973 to October 1974</td>
<td>630</td>
<td>-48.2%</td>
</tr>
<tr>
<td>November 1980 to August 1982</td>
<td>622</td>
<td>-27.1%</td>
</tr>
<tr>
<td>August 1987 to December 1987</td>
<td>101</td>
<td>-33.5%</td>
</tr>
<tr>
<td>July 1990 to October 1990</td>
<td>87</td>
<td>-19.9%*</td>
</tr>
<tr>
<td>March 2000 to October 2002</td>
<td>929</td>
<td>-49.1%</td>
</tr>
<tr>
<td>October 2007 to March 2009</td>
<td>517</td>
<td>-56.8%</td>
</tr>
</tbody>
</table>

* The intraday low marked decline of -20.2% so this cycle is often considered a bear market.

**Making changes**

If you’re reconsideryour current investment strategy, a volatile market is probably the worst time to turn your portfolio inside out. Dramatic price swings can magnify the impact of a wholesale restructuring if the timing of that move is a little off. Changes in your portfolio don’t necessarily need to happen all at once. Having appropriate asset allocation and diversification is still the fundamental basis of thoughtful investment planning, so try not to let fear derail your long-term goals.
The return and principal value of stocks fluctuate with changes in market conditions. Shares, when sold, may be worth more or less than their original cost. Asset allocation and diversification are methods used to help manage investment risk; they do not guarantee a profit or protect against investment loss.

The S&P 500 is an unmanaged group of securities that is considered to be representative of the U.S. stock market in general. The performance of an unmanaged index is not indicative of the performance of any specific investment. Individuals cannot invest directly in an index. Past performance is not a guarantee of future results. Actual results will vary.

Telemedicine can be used to treat minor health problems such as allergies and rashes, or for an urgent condition such as a high fever. It also makes it easier to access therapy for mental health issues such as depression and anxiety. In other cases, doctors can remotely monitor the vital signs of patients with chronic conditions, or follow up with patients after a hospital discharge. Telemedicine can also fill gaps in the availability of specialty care, especially in rural areas.

Telemedicine offers a way for patients to interact with doctors or nurses through a website or mobile app using a secure audio or video connection. Patients have immediate access to advice and treatment any time of the day or night, while avoiding unnecessary and costly emergency room visits. And health providers have the ability to bill for consultations and other services provided from a distance.

Offered by many health plans

In 2019, nearly nine out of 10 large employers (500 or more employees) offered telemedicine programs in their benefit packages, but many workers had not tried them out. Only 9% of eligible employees utilized telemedicine services in 2018 (the most recent year for which data is available), even though virtual consultations often have lower copays and are generally less expensive than in-person office visits, especially for those with high deductibles.6

If your health plan includes telemedicine services, you might take a closer look at the details, download the app and register for an online account. This way, you’ll be ready to log in quickly the next time your family faces a medical problem.