Allegheny Financial Group · Allegheny Investments

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Dear Valued Client:

It's been a crazy two weeks, to say the least. We all have learned and executed quite quickly the concepts of social distancing, self-isolation, 'work from home,' 'study from home,' and more. The uncertainty from both the health emergency and the economic emergency has led to a mess in the financial markets. The speed of the market fall was unsettling.

We understand those who feel frightened, disconcerted, or worried about the entire situation. There is nothing wrong with those emotions. During times like these, we think it is vital for our teams and financial advisors to keep perspective, stay rational, and ground ourselves in what we know.

And we think it is important for you to help you do the same where we can. We don't pretend to know everything about pandemics. We are learning, too.

Feeling concerned about what's going on is normal, but where problems can arise are when we act on those emotions and look to change from the set course of action that we've worked hard to put in place as part of your long-term plan.

With so much information coming at you, you may forget that you did work on your finances in consideration of a crisis before the crisis took shape. This is your personal business continuity plan.

How have we managed risk?

The following are specific assessments we have done to keep your plan on track:

1. We've considered your spending needs, both now and projected for many years in the future.
2. We determined a cash reserve policy.
3. We determined the necessity for you of an emergency reserve.
4. We determined an amount of assets to move into fixed income for the intermediate term (not in cash, but not fully in equities).
5. We determined what will not be needed for at least five years and could be invested in stocks.
6. We took your personal considerations into account.
7. We determined prudent positioning and location for these assets.
8. And finally, we tested the sustainability of this, assuming both good and bad market experiences.

We did this in order not to speculate what the market will do tomorrow.

How have we managed volatility?

We also manage volatility in your portfolio in three primary ways. We did this before a market correction, so you don't have to make an emotional decision during.

1. Reduce Volatility – We invest some of your portfolio in cash and bonds. These are low volatility investments.
2. Navigate Volatility – We diversify among different types of assets to dilute (not avoid!) the impact of corrections.
3. Harness Volatility – We set a target allocation and systematically rebalance back to that allocation. This methodology forces us to "buy low" and "sell high" and avoid being overly greedy or overly fearful in the short-term.

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Should I do something?

Well, you did. See the items above. Furthermore, if one tries to get out and then get back in, they must be right twice; and that is rare. We only know the market bottom in hindsight. A market bottom is not like jumping to the bottom of the pool, touching it with your foot, and shooting back up. It is a process. More importantly, the period of time directly after the bottom is when most gains are made in the recovery. See this chart of several significant declines since 1980. This should be very illustrative.

After declines, recoveries have followed

Significant Market Declines and Subsequent 5-Year Periods

				12-Mo Returns Positive Periods (25) Negative Periods (5)						
Periods of Decline	Event	(%) Decline	Approx. time (months) before a 100% recovery	1st year after low	2nd year after low	3rd year after low	4th year after low	5th year after low	Hypothetical growth of $10,000 during the 5-yr period	Annualized total return for the 5-yr period
12/30/1980 - 7/31/1982	Fed Rate Hikes	-16.81%	5	63.55%	-5.38%	26.00%	47.18%	28.40%	$36,848.00	29.80%
9/29/1987 - 11/30/1987	Black Monday Crash	-13.26%	13	8.45%	21.75%	-13.74%	23.32%	13.25%	$15,907.00	9.73%
7/30/1998 - 8/31/1998	Russian Debt Crisis	-15.21%	3	32.74%	17.87%	-20.61%	-16.20%	16.30%	$12,106.00	3.90%
9/29/2000 - 9/30/2002	Dot-Com Crash & 9/11 Attack	-37.16%	26	16.30%	14.13%	18.43%	12.81%	14.91%	$20,377.00	15.30%
10/31/2007 - 2/28/2009	Global Financial Crisis	-50.28%	47	36.16%	23.33%	0.36%	16.50%	20.77%	$23,712.00	18.85%
5/1/2011 - 9/30/2011	Eurozone Debt Crisis	-20.47%	12	12.06%	20.97%	20.82%	-1.51%	8.17%	$17,449.00	11.78%
10/1/2018 - 12/31/2018	Recession Fears	-15.37%	10	27.33%	N/A	N/A	N/A	N/A	N/A	N/A
		Average	**16.57**	**28.08%**	**15.45%**	**5.21%**	**13.68%**	**16.97%**		**14.89%**

Source: Morningstar Direct as of 12/31/2019

***Periods of decline** are based on the value of the unmanaged Ibbotson Associates U.S. Large Cap Stock total return index (including all reinvested dividends and/or distributions). For the purpose of this exhibit, each "**market decline**" reflects a period of at least 30 consecutive days with a decline of 15% or more in the index's value, and must be followed by a recovery in the index's value of at least 50%. While it does not meet this definitiion, the 2018 decline is included as a reference point. It is not included in the calculation of the average.

Declines and subsequent returns are based on a blended total return index consisting of 45% S&P 500/30% Russell 2000/25% MSCI EAFE, rebalanced annually. The return displayed for each of the five years "after low" is a 12-month return based on the end-date of the low.

Information included herein was obtained from sources which we believe reliable. Allegheny Financial Group is a Registered Investment Advisor. Securities offered through Allegheny Investments, LTD, a registered Broker/Dealer. Member FINRA/SIPC.

Decision making and your financial plans

As we have worked together, we have set up plans and constructed your asset makeup in order to achieve your goals over time. We do this grounded in the reality that there will be setbacks; that we don't avoid negatives, and we deal with probabilities, not certainties. Personal financial planning is just like the planning you do for your family, your business, your classroom, your staff, your team--or the boards you serve.

We do this not so much for the smooth part of the ride, but the bumpy part. In your plans, we assume negative years, market corrections, downturns. We do this to avoid emotional money decisions amid navigating through the white-water. Reacting emotionally right now could lead you to do something irrationally (and detrimental) to your long-term financial health and goals. Throwing the plan out right now because we fear the unknown is like taking your life vest and flinging it as far from you as possible because you're worried about the kayak flipping. That would be self-defeating, to say the least.

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What do we think will happen?

The current market volatility is disconcerting. There's nothing to say that this coming week won't get worse. Our most experienced, long-term clients know to expect this. They don't love it. But, they know it.

The U.S. economy will have a brutal second quarter and a hard third quarter. The financial markets are a leading indicator of the economy. It anticipates what is coming. It also hates uncertainty. That is why now it is worse than the economy (those numbers will come later). When there is more certainty around the virus cases, and more certainty about the fiscal policies being enacted to support the economy, the financial markets will turn the corner. The market will always bottom before the economic data. The market also tends to recover more quickly than the underlying economic data. We are reasonably confident in this historical pattern, though we remain deeply skeptical of anyone's ability to time it.

We ask you to continue looking at the entire river that is your whole time horizon, rather than pressing your nose up against the currents that are hitting the kayak and failing to see anything else but what's right in front of you. Remember, the money in your investment portfolio isn't there because you need it tomorrow.

Weeks like these are painful, but we do not need to act on that pain. We set a strategic plan and constructed an evidence-based investment portfolio - in advance - precisely so that we have something to guide us through these periods of uncertainty and worry.

Sincerely,

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