ICMA RC

BUILDING PUBLIC SECTOR RETIREMENT SECURITY

INVEST FOR TODAY AND TOMORROW:

DEALING WITH CURRENT CONDITIONS

FCCMA Conference – May 2019

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WHY INVEST

- Putting your savings to work so it can grow
- Avoiding risk can be a risk
- Avoiding Risk Can Require More Savings
- Comes with risk, too – that you can *lose* money

AVOIDING RISK CAN BE A RISK

For illustrative purposes only

AVOIDING RISK CAN REQUIRE SAVING MORE

Over 30 years, to build the same amount of saving…

EARN	SAVE (% of Salary)	SAVE PER PAYCHECK
2%	22%	$423
6%	10%	$192

Taking low risk may be ok – but you probably have to save a lot more

* For illustrative purposes only. Assumes $50,000 salary, biweekly paycheck contributions, and effective annual returns compounded biweekly.

CONTROL WHAT YOU CAN

What you (and any "expert") **CANNOT** control

- The markets
- The economy

What you **CAN** control

- Following a plan
- How much you save
- How diversified your investments are
- Managing risk, your emotions (difficult!)

DON'T ASSUME THE FUTURE

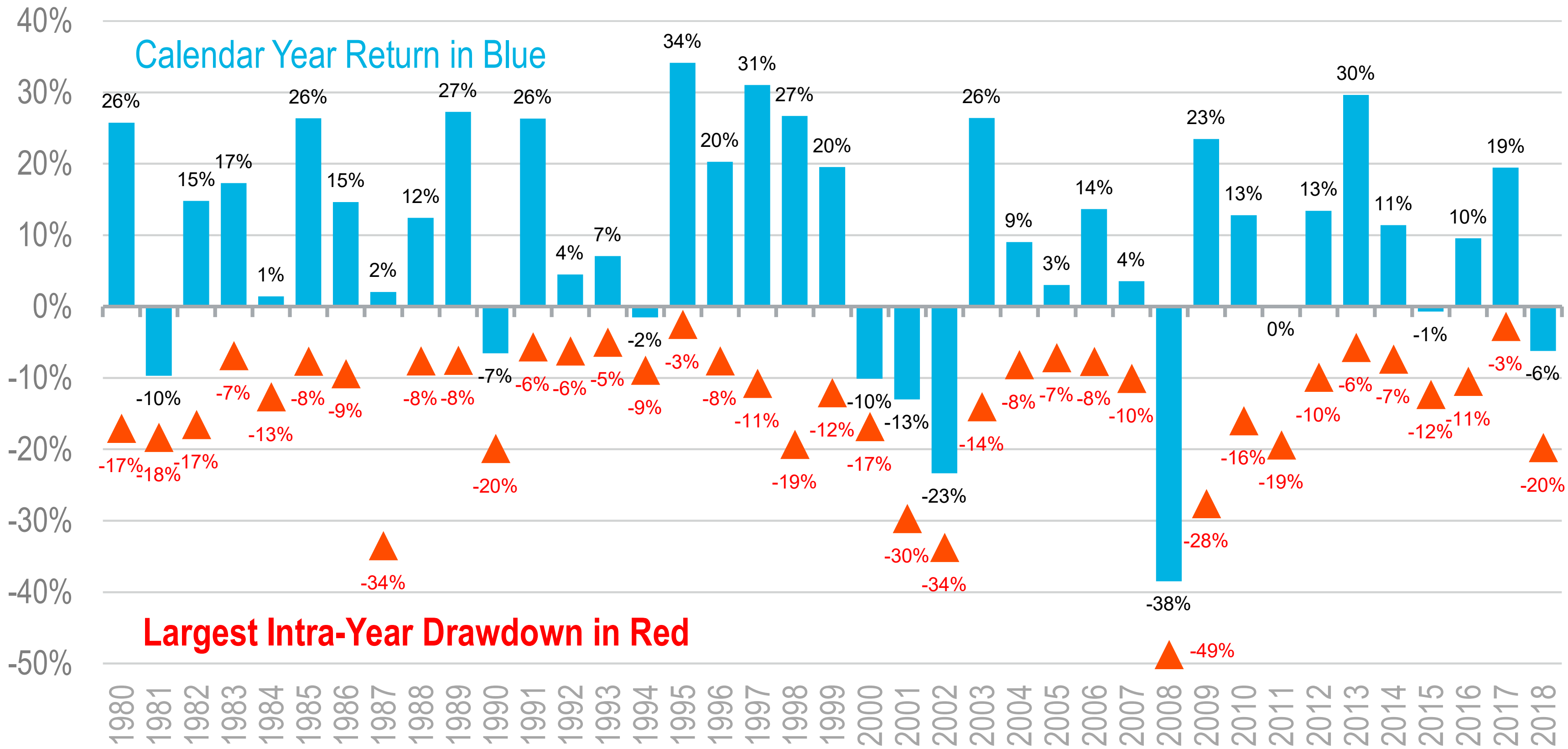
Sensible, differing opinions (always) exists about…..

- Stocks and bond markets
- Economy
- Housing
- Inflation
- Political climate

News reports often overstate the IMPORTANCE of specific events, prompting you to overreact

MARKET DECLINES ARE NORMAL

Stocks have declined at some point every year since 1980…
But ended positive in 29 of the 38 years



Source: Strategas, Morningstar Direct. Returns are based on price index only and do not include dividends. Intra-year declines shows the decline since the previous high-water mark during the year.

Past performance, as shown, is no guarantee of future results.

DON'T PREDICT PERFORMANCE

Performance of different investment indexes, 2009 – 2018…
Do you see any predictable patterns?

HIGHER RETURN

2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
Large Growth 37.21%	Small Growth 29.09%	Bond 7.84%	Small Value 18.05%	Small Growth 43.30%	Large Value 13.45%	Large Growth 5.67%	Small Value 31.74%	Large Growth 30.21%	Cash 1.87%
Small Growth 34.47%	Small Value 24.50%	Balanced 4.34%	Large Value 17.51%	Small Value 34.52%	Large Growth 13.05%	Balanced 1.00%	Large Value 17.34%	Developed Int'l 25.03%	Bond 0.01%
Developed Int'l 31.78%	Large Growth 16.71%	Large Growth 2.64%	Developed Int'l 17.32%	Large Growth 33.48%	Balanced 10.36%	Bond 0.55%	Small Growth 11.32%	Small Growth 22.17%	Large Growth -1.51%
Small Value 20.58%	Large Value 15.51%	Large Value 0.39%	Large Growth 15.26%	Large Value 32.53%	Bond 5.97%	Cash 0.05%	Balanced 8.37%	Balanced 14.13%	Balanced -2.59%
Large Value 19.69%	Balanced 12.74%	Cash 0.10%	Small Growth 14.59%	Developed Int'l 22.78%	Small Growth 5.60%	Developed Int'l -0.81%	Large Growth 7.08%	Large Value 13.66%	Large Value -8.27%
Balanced 19.50%	Developed Int'l 7.75%	Small Growth -2.91%	Balanced 11.55%	Balanced 17.95%	Small Value 4.22%	Small Growth -1.38%	Bond 2.65%	Small Value 7.84%	Small Growth -9.31%
Bond 5.93%	Bond 6.54%	Small Value -5.50%	Bond 4.21%	Cash 0.07%	Cash 0.03%	Large Value -3.83%	Developed Int'l 1.00%	Bond 3.54%	Small Value -12.86%
Cash 0.21%	Cash 0.13%	Developed Int'l -12.14%	Cash 0.11%	Bond -2.02%	Developed Int'l -4.90%	Small Value -7.47%	Cash 0.33%	Cash 0.86%	Developed Int'l -13.79%

LOWER RETURN

- ***Large Growth*** *(large-cap growth U.S. stocks, represented by Russell 1000 Growth Index)*
- ***Large Value*** *(large-cap value U.S. stocks, represented by Russell 1000 Value Index)*
- ***Small Growth*** *(small-cap growth U.S. stocks, represented by Russell 2000 Growth Index)*
- ***Small Value*** *(small-cap value U.S. stocks, represented by Russell 2000 Value Index)*
- ***Developed Int'l*** *(developed market stocks excluding U.S. and Canada, represented by MSCI EAFE Index (Net))*
- ***Bonds*** *(investment-grade U.S. fixed-income securities, represented by Bloomberg Barclays U.S. Aggregate Bond Index)*
- ***Balanced*** *(60% Russell 1000 Index and 40% Bloomberg Barclays U.S. Aggregate Bond Index)*
- ***Cash*** *(3-Month Treasury Bill)*

Source: Morningstar Direct. Data through December 31, 2018. Past performance is no indicator or guarantee of future results

DON'T "TIME" THE MARKETS

> "October. This is one of the peculiarly dangerous months to speculate in stocks. The others are July, January, September, April, November, May, March, June, December, August, and February."

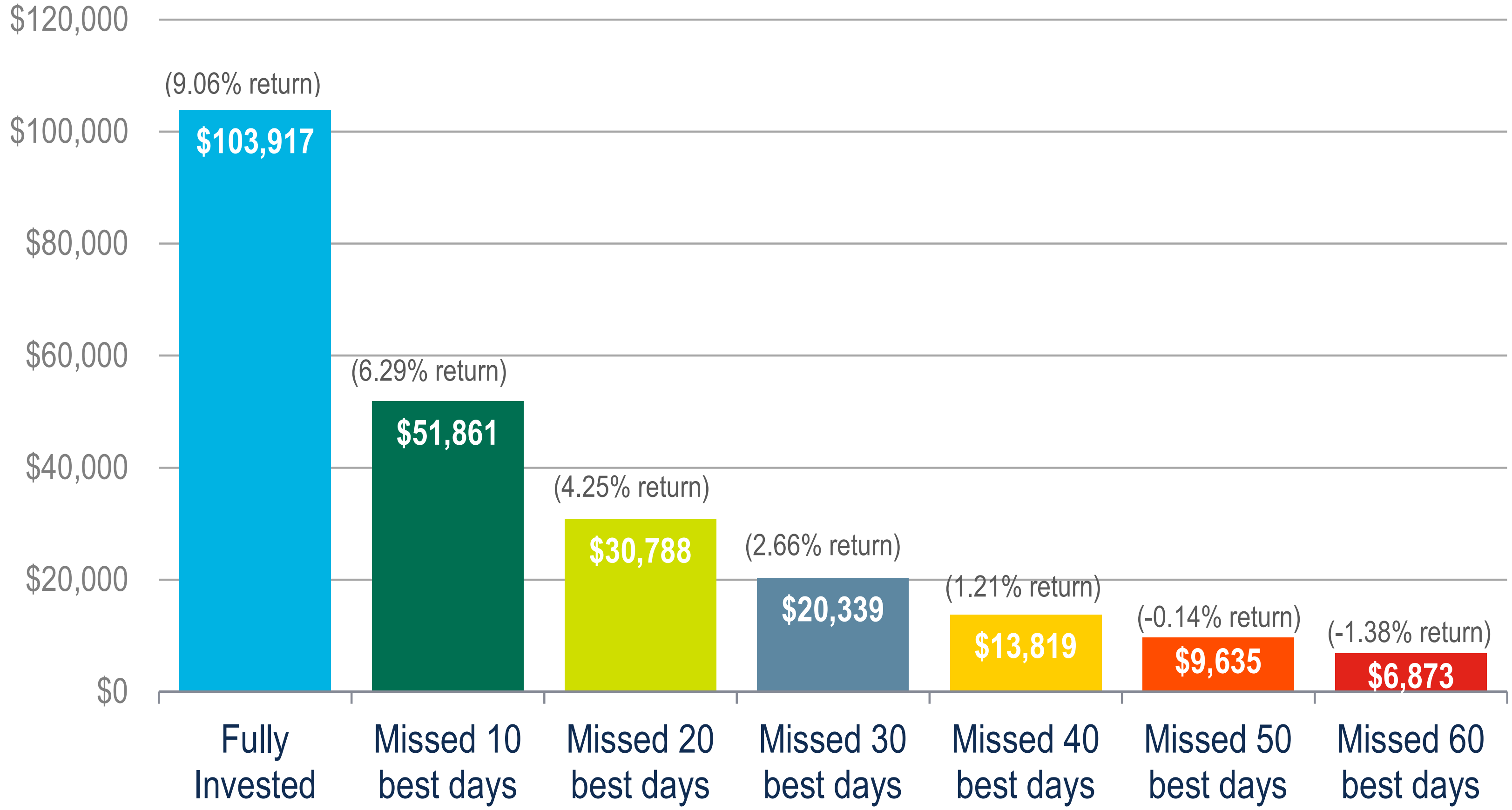
– MARK TWAIN

> "Far more money has been lost by investors trying to anticipate corrections than has been lost in all the corrections combined."

– PETER LYNCH

CHOOSE TIME IN THE MARKET OVER TIMING THE MARKET

Performance of $10k when best days missed



Source: Morningstar Direct. Measures performance of S&P 500 stock index from Jan. 1, 1992 through Dec. 31, 2018.
For illustrative purposes only. Past performance is no guarantee of future results.

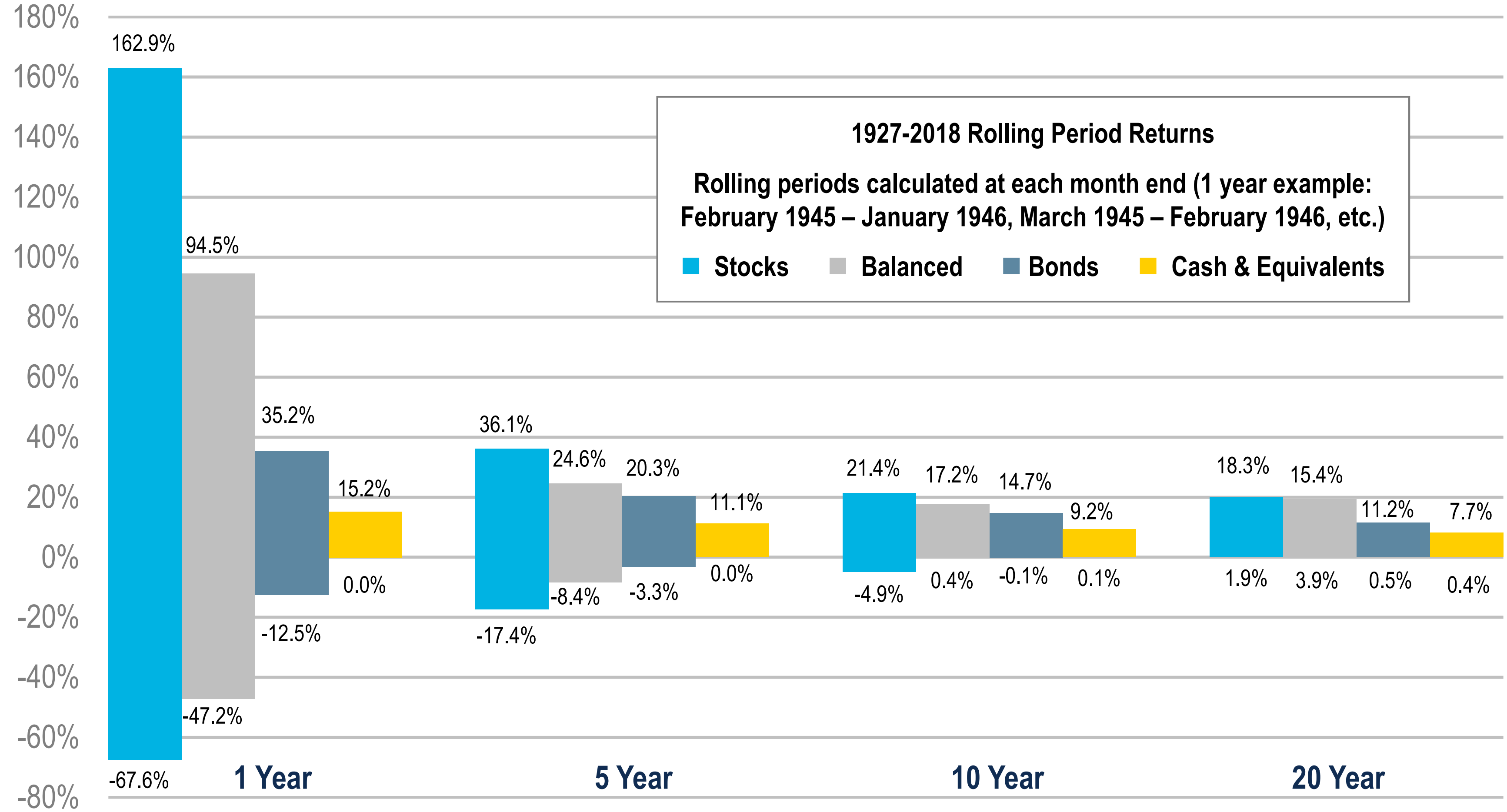
DON'T BE TOO OVERCONFIDENT

You can be right about a…

- Trend but wrong about the companies that invest in it
  (think Internet stocks in 2000)
- Company but wrong about its (overpriced) stock
- Company or industry or country but your investment may not pan out because growth is slower than what the market EXPECTS

KEEP A LONG-TERM PERSPECTIVE

Highest and Lowest Performance



Source: Morningstar Direct. The chart above uses the range of returns for various time horizons since 1926 to show that shorter time periods experience more fluctuation in returns than longer time periods. For example: An investment matching the performance of the S&P 500 Index held for a one-year period ranged from a 163% gain to a 68% loss. While holding the same investment for a twenty-year period returned as much as 18% per year and never less than 1%. Past performance, as shown, is no guarantee of future results and returns over one year are annualized.

DON'T "PANIC SELL"

2007 OCT

Assume **$100,000** in stock market when downturn began.

2009 FEB

Stock market low – balance at **$49,051**
If then moved all to cash, would have….

2012 DEC

…**$49,201** vs. **$103,333** if kept as is

Source: "Benefits of Staying Invested Through Market Volatility", Morningstar (2012). Stocks represented by S&P 500 and Cash by 30-day U.S. Treasury Bill

① DO KEEP CALM

Study of 51 crises since 1900:

Stock market fell immediately after, losing average **6.7%**

Six months later, on average, was higher than before the outbreak, up **8.9%**

Most investors overreact to market downturns

Source: "Why it Pays to Keep Calm in an International Crisis", Wall Street Journal (5/3/14). Study source: Ned Davis Research.
Stock market represented by Dow Jones Industrial Average.

2 DO STAY INVESTED

- **9x** in past **50 YEARS** stock market crashed
- If invested at peak, did nothing for **5 YEARS**, how often made money?
- **EVERY TIME**, as long as they stayed invested

Source: "Volatility Isn't the Enemy", Wall Street Journal (6/9/13).

3 DO KEEP SAVING AND INVESTING

If in **October 2007** invested **$100/month** in **STOCKS** when bear market started = **$7,700** total:

2007 OCT

you'd have **$12,238** now

if bought average government **BOND** fund:
$8,414

2014 MAR

if bought average **MONEY MARKET** fund:
$7,727*

Source: "Quit being so paranoid", USA Today (3/7/14)

4 DO KNOW YOUR COMFORT LEVEL WITH RISK

To stick with your plan during tough times, you have to know your limits

Don't Ask

"Are **STOCKS** overvalued or undervalued?"

or

"Is this a **GOOD** time to buy or sell?"

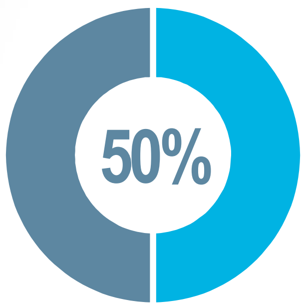
(No one knows for certain)

Do Ask

"How much can I lose before I will **DEVIATE** from my plan?"

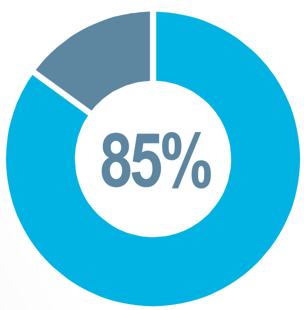
5 DO SAVE AS MUCH AS YOU CAN

There is **more** money savings in



15% of salary with 50% stocks

than in



10% of salary with 85% stocks

To meet your saving goals, risk is likely unavoidable, but saving more can allow reduced risk **IF NEEDED**

Source: Ibbotson Associates as cited in Money Magazine, “Save More to Risk Less” (Jan/Feb 2011). Assumes 35 year time horizon.

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DO DIVERSIFY TO HELP MANAGE RISK

Protect against different economic, inflation, interest rate, market scenarios that may occur

- During **2008**, bonds overall and cash had positive returns
- During **2000-2002**, many value stocks and bonds had positive returns

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DO DIVERSIFY BY DIFFERENT GOALS, TOO

Divide portfolio by goals and comfort with risk

- Safe money for emergencies, short-term needs
- Higher risk for long-term goals
- Highest risk “mad money”, if you must – small amounts you can afford to lose

8 DO REBALANCE TO MANAGE RISK

Adjust investments, contributions to original targets to help you…

- Maintain your ideal level of risk
- Stick with your plan
- Manage risk when nearing/in retirement

POSITIVE STEPS YOU CAN TAKE

- Stick with a plan customized for you and update as your circumstances change
- Save more
- Manage risk
- Diversify investments
- Rebalance – to maintain desired risk level
- If feel must do something – consider SMALL changes

QUESTIONS