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May 2020

3 Mistakes Investors Should Avoid

Keeping a Long-Term mindset during turbulent times

THE MONTH IN BRIEF

Stocks rebounded sharply in April, fueled by a flattening pandemic curve and positive results from a clinical trial investigating a treatment for COVID-19. The Dow Jones Industrial Average, which dropped 14% in March, jumped 11.08%. The Standard & Poor's 500 Index rose 12.68%, and the NASDAQ Composite surged 15.45%.[1]

Slowdown in Infections

Just as it appeared that April might be a repeat of March, stocks turned higher with signs of a slowdown in COVID-19 infections, especially in Italy and New York state. Though jobless claims were breathtakingly high, they were expected, allowing investors to focus on positive developments. A more stable bond market also helped support the rally. The stock market struggled to move higher, as a weak start to earnings season and troubling economic data created some underlying crosscurrents.

MARKET INDEX	Y-T-D CHANGE	1-MO CHANGE	2019
DJIA	-14.69%	11.08%	+22.34
NASDAQ	-0.93%	15.45%	+35.23
S&P 500	-9.85%	12.68%	+28.88
YIELD	**2/28 RATE**	**1 MO AGO**	**1 YR AGO**
10 YR NOTE	-1.22%	0.70%	2.73

Sources: wsj.com, bigcharts.com, treasury.gov - 4/30/20
Indices are unmanaged, do not incur fees or expenses, and cannot be invested into directly. These returns do not include dividends. 10-year Treasury real yield = projected return on investment, expressed as a percentage, on the U.S. government's 10-year bond.

Monthly Quote

"Every individual matters. Every individual has a role to play. Every individual makes a difference."

JANE GOODALL

Tip of the Month

How large should an emergency fund be? There is no "one-size-fits-all" answer. The ideal amount may depend on your financial situation and lifestyle. For example, if you own a home or have dependents, you may be more likely to face financial emergencies.

The Monthly Riddle

Its teeth are sharp, and its spine is straight. It is not innately vicious, it does not hunt, but to cut things up is definitely it's fate. What is it?

Last month's riddle:

While most English words can be pluralized by adding the letter S on the end, there is one word that can be pluralized just by the addition of the letter C. What is it?

Last month's answer:

Dice

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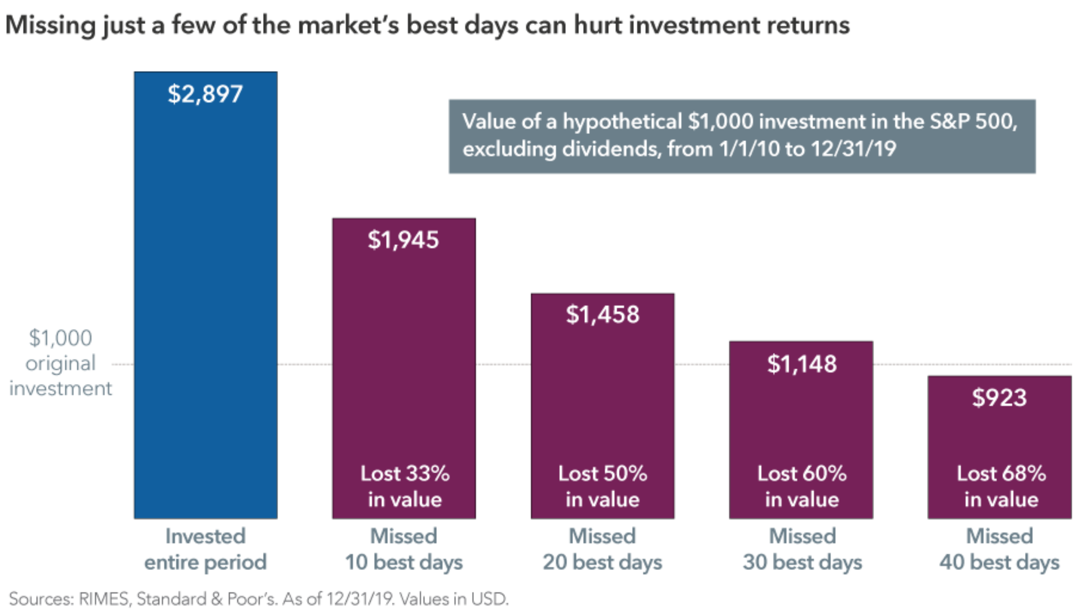
Mistake #1: Trying to time markets:

It's time, not timing, that matters in investing. Taking your money out of the market on the way down means that if you don't get back in at exactly the right time, you can't capture the full benefit of any recovery.

Consider an example of a hypothetical investor who sold stocks during the market downturn of 2008–2009, and then tried to time the market, jumping back in when it showed signs of improvement. Missing even the 10 best days of the recovery would have significantly hurt that investor's long-term results — and the more missed "good" days, the more missed opportunities.

Investors who are more hesitant to put all their excess capital to work at once may want to consider dollar cost averaging in volatile markets. Dollar cost averaging during a decline allows you to purchase more shares at a lower average cost, and when markets eventually rise, those extra shares can enhance your portfolio's value.



Mistake #2: Assuming today's negative headlines make it a bad time to invest:

Today's economic and geopolitical challenges may seem unprecedented, but a look through history shows that there have always been reasons not to invest. Despite negative headlines, the market's long-term trend has always been higher.

Consider a hypothetical investment in the S&P 500 on the day Pearl Harbor was bombed on December 7, 1941. Someone who stayed invested for the next 10 years would have averaged a 16% annual return. Likewise, a hypothetical $10,000 investment in the S&P 500 on the day Lehman Brothers declared bankruptcy on September 15, 2008, would have grown to over $30,000 10 years later. History has provided numerous examples of this.

Great investment opportunities often emerge when investors are feeling most pessimistic. The coronavirus outbreak may be unlike anything we have faced before, but uncertainty is nothing new to the market, which has been resilient over time.

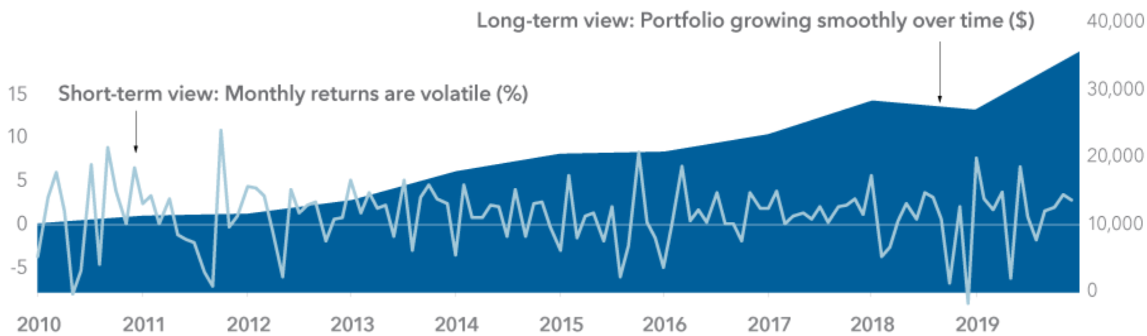
Mistake #3: Focusing too much on the short term:

Market volatility is especially uncomfortable when you focus on short-term ups and downs. Instead, extend your time horizon to focus on the long-term growth of your investments and the progress you've made toward your goals.

Consider the chart below that shows contrasting perspectives of the same hypothetical investment. The short-term view is one that many investors have of their portfolios — tracing returns over short periods of time. The long-term view plots the same exact investment over the same period, but shows annual change in the portfolio value invested instead. With this perspective, the short-term fluctuations of the first chart have smoothed out over time, and the picture of a growing portfolio becomes clearer.

Remember that bear markets don't last forever. Maintaining a long-term perspective can help keep investors focused on the goals that matter most.

Two views of the same investment



Sources: RIMES, Standard & Poor's. Short-term view reflects the monthly returns of the S&P 500 Index. Long-term view represents a hypothetical $10,000 initial investment in the same index. Both are from 12/31/09 through 12/31/19. Returns are in USD.

For more information on investment choices for your retirement plan,
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CITATIONS ECONOMIC SECTION:
1 - The Wall Street Journal, April 30, 2020
3 - MSCI.com, April 30, 2020
4 - MSCI.com, April 30, 2020
5 - MSCI.com, April 30, 2020

CITATIONS FINANCIAL ARTICLE SECTION:
1 - https://www.capitalgroup.com/advisor/insights/articles/guide-market-recoveries.html#mistakes

ACR# 349740