HOWARD Capital Management

HCM Volatile Market Guide

By: Howard Capital Management, Inc.

Objective: At Howard Capital Management, Inc. we understand many investors may feel uncertain about how to navigate today's increasingly complex market. This document combines research and strategy to serve as a guide for investors who feel unprepared or worried about investing. It is our mission to offer the knowledge, innovation and a defined plan to help investors maximize gains and minimize losses, even during volatile markets.

The Problems Investors Are Facing Today

It's not always about how much money you make, but rather how much money you keep.

Markets are constantly evolving, and investor needs have evolved, as well, as many seek to successfully navigate increasingly complex market conditions. The recent bull market run lasted more than a decade, the longest such streak in history. With those returns in the rear view mirror, the way a portfolio weathers the next downturn could go a long way in defining its investors' experience over the next decade. It is easy to forget many investors lost half their investment and retirement savings to such a long and grueling sell-off during the great recession. While no one can predict when bear markets, recessions or depressions will hit, understanding how to prepare for market turmoil is key.

Factors that worry investors:	Obstacles investors face:	Solutions investors should consider:
■ Geopolitical risks ■ Inflation ■ Large government debt ■ Getting stuck in a bond bubble ■ Uncertainty of changing interest rates	■ Rise of computerized trading ■ Volatile equity and bond return on investments ■ Identifying opportunities for diversification ■ Interest rates that impact rate of return	■ Utilizing math-based strategies to identify risks and opportunities without emotion ■ A more active investing approach with the goal to minimize losses and maximize gains ■ Defining financial goals through appropriate risk tolerance and diversification ■ Gaining insight of market trends

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Rise of Computerized Trading

In the last decade, computerized and math-based trading has started to dominate the market. The evolution of trading is inevitable.

The practice of high-frequency, algorithmic trading to identify beneficial trading opportunities is becoming increasingly popular in today's fast-paced market. Many investors are no longer trading or investing in a market based on fundamentals, technical analysis or chart reading; they are competing against a machine running complex and numerous algorithms each second. This current market structure positions everyday investors against highly sophisticated trading systems.

High-frequency traders, also known as quantitative traders, identify profitable trading opportunities based on mathematically-driven computer systems and research. It has grown increasingly more evident quantitative traders can push the market in the direction they want it to go, causing much of the extreme volatility we see today. The systems are gaining momentum and becoming so fast; they can buy and sell based off a few words from individual statements seen throughout the day.

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The challenges in the investment world are as significant as they've ever been as we compete in a market driven by computerized trading. Going forward, investors working with firms who have already adapted to algorithmic trading might find themselves benefiting in the long-run.

> Roughly 85% of all trading is on autopilot—controlled by machines, models, or passive investing formulas, creating an unprecedented trading herd that moves in unison and is blazingly fast. Quantitative hedge funds, or those that rely on computer models rather than research and intuition account for 28.7% of trading in the stock market, according to data from Tabb Group—a share that's more than doubled since 2013. They now trade more than retail investors, and everyone else.
>
> – THE WALL STREET JOURNAL[1]

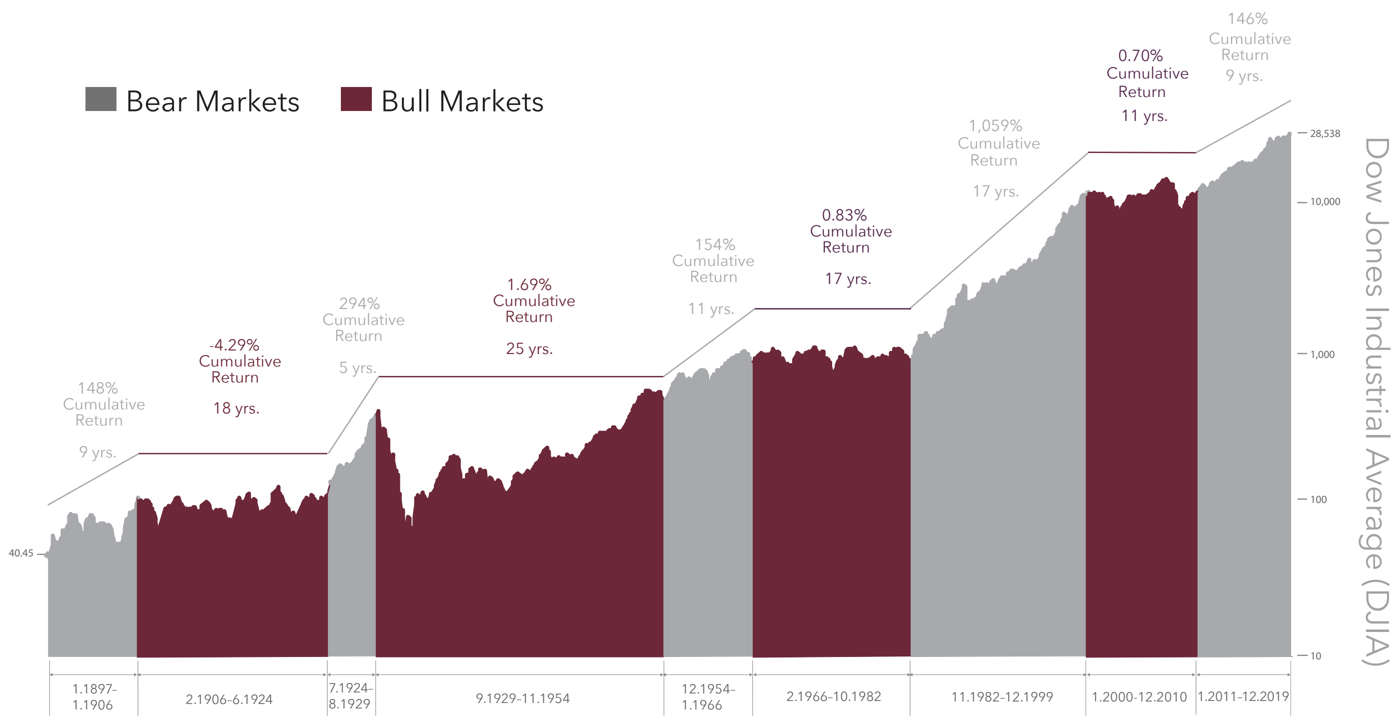
1. Source: Wall Street Journal, Behind the Swoon: The Herdlike Behavior of Computerized Trading, December 25, 2018

Equity Returns in a Volatile Market

Volatility, or the frequency and rate of change in a security's value, is important to consider when determining an investing strategy for portfolios.

History shows the market typically moves in cycles. In the past 123 years, there have been five bull markets and four bear markets. Investment strategies that work in bull markets may not be effective in bear markets. Market volatility can make it hard to capitalize on growth opportunities. Take the "lost decade" for example. The term has been used to refer the U.S. economic conditions from 2000 to 2010, during which there was little or no return from the broad stock market. The economic boom that occurred in the middle of that decade was not enough to make up for all the losses from the bear markets in 1999 and 2008.

Even in bull markets, market volatility can take a toll on portfolios. It is typical to see at least an average 10% correction per year.



2. Source: Guggenheim Investments "Understanding equity bull and bear markets" (c) 2020

John Bogle's Prediction Arrived

Investors must prepare for volatile markets.

In an interview with John Bogle on CNBC April 1, 2013, Bogle stated we [investors] need to "prepare for at least two declines of 25-30%, maybe even 50%, in the coming decade." He continues, "I went through one in 1973–1974, I went through one in 2001, 2002, 2003; I went through another one in 2008–2009. They're kind of scary—often terrifying—but it's typical."

> "Prepare for at least two declines of 25%–30%, maybe even 50%, in the coming decade."
>
> –The Vanguard
> Group founder John Bogle,
> on the economy, 2013

In December of 2019, news broke around the world the new infectious disease, Covid-19, was spreading globally – fast. Sparking panic around the world, once the first case of Covid-19 was identified in the United States, the market quickly ignited a chain reaction of mass sell-offs and wild volatility. By late February, 2020, the market was extremely over-sold and in bear market territory.

The difference in 2020 vs other declining periods: the mass sell-offs were happening ***faster*** than they ever had before, again highlighting the role of computerized trading. Even some of the most experienced traders are acknowledging the shock and difference. [4]According to Warren Buffet, it's taken 89 years to experience a market like this first quarter of 2020. "The markets, they react to news in a big time way." While John Bogle predicted the decline, Warren Buffest is living the experience at Vanguard.

3. Source: CNBC Interview: Bogle's Prediction, Stocks Will Outperform Bonds, April 1, 2013
4. Source: Market Watch, Warren Buffet on the 'One-Two Punch' Market Panic: It Took Me 89 Years to Experience Something Like This, March 11, 2020

The Challenge of Recovering from Losses

With speculation of the equity market's direction after a shaky start to 2020, the need to construct portfolios designed to weather market volatility is crucial.

Remember, markets are cyclical, as shown in the chart on page 3. Shaky upswings followed by market drawdowns can be destructive to a portfolio's performance, especially because on a percentage basis, you must earn more than you lost just to get back to even.

The table below demonstrates how much an investment needs to gain just to break even for a number of downward price movement scenarios.

The Mathematics of Losses and Gains
If a $10,000 investment loses X%, how much in gains are needed to break even?

% of Losses	Value Remaining after Loss	% of Gain Needed to Break Even
10%	$9,000	11%
15%	$8,500	18%
20%	$8,000	25%
25%	$7,500	33%
30%	$7,000	43%
40%	$6,000	67%
50%	$5,000	100%
60%	$4,000	150%

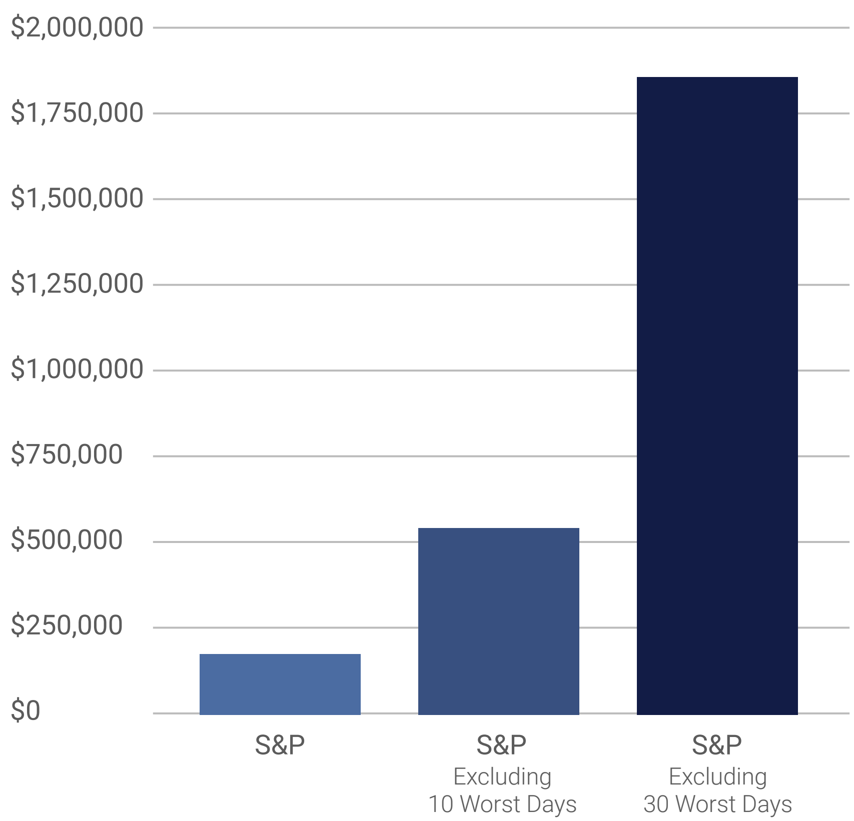
Benefits of Missing the Worst Days in the Market

One way to minimize downside risk is to miss the worst days of the market. It could save you more than you think.

As mentioned on page 2, the way a portfolio weathers downturns could go a long way in defining its investors' experience over the next decade. It's important to note, bear markets are a common part of investing. There have been roughly 25 bear markets since the Great Depression of 1929. Utilizing faster, computerized trading trends might allow investors to be more confident about their portfolios.

Based on historical returns from Yahoo Finance, missing some of the worst days in the market could save investors more than they think. Below is an illustration of the S&P 500® Index vs. S&P 500® Index excluding some of the worst days from 12/31/1979 to 03/24/2020[4].

Growth of $10,000 From 12/31/1979–03/24/2020



4. Source: Gain/Annum (%) and Growth of $10,000 of S&P 500® Stock Index Excluding Worst Days. S&P 500 Market price data - Yahoo Finance

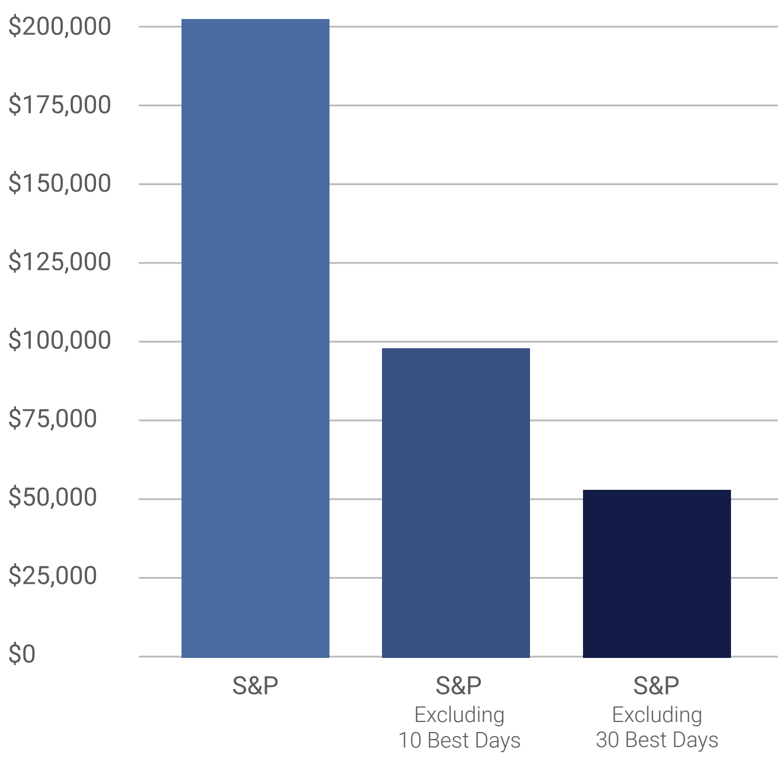
The Difference of Missing the Best Days in the Market

Conversely, not entering back into the market at the right time could cause for set backs.

Missing the worst days of the market can save an investor's portfolio quite a bit, but failing to enter the market and capture some of the best days of the market can also hurt long-term performance.

Based on historical returns from Yahoo Finance, missing some of the best days in the market could hurt investors more than they think. Below is an illustration of the S&P 500® Index vs. S&P 500® Index excluding some of the best days from 12/31/1979 to 03/24/2020[5].

Growth of $10,000 From 12/31/1979-03/24/2020



5. Source: Gain/Annum (%) and Growth of $10,000 of S&P 500® Stock Index Excluding Best Days. S&P 500 Market price data - Yahoo Finance

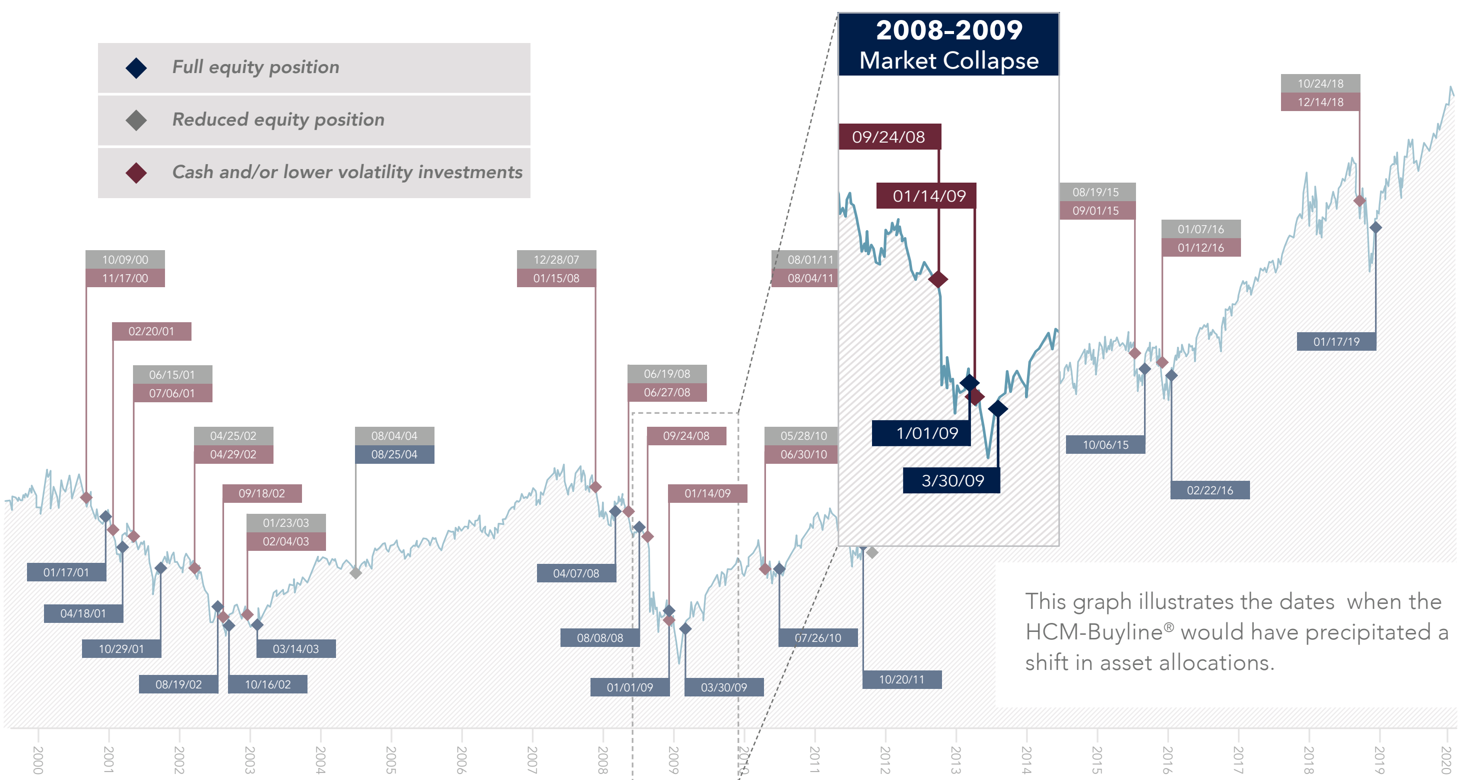
Proprietary Risk Management with The HCM-BuyLine®

Mathematically striving to minimize downside risk with *stop***loss** protection.

The HCM-BuyLine® is our proprietary, math-based tool designed to mitigate downside risk. It is a disciplined strategy that takes the emotion out of investing. Driven by mathematical market ratios, the model attempts to avoid major market downturns by moving out of equities while seeking to take advantage of market upturns. The signals given by the HCM-BuyLine® are shown by the arrows on the chart below.

The use of the HCM-BuyLine® is intended to avoid catastrophic losses in bear markets while seeking to maximize market upturns. When the HCM-BuyLine® goes negative, clients' assets are moved to cash, cash equivalents or less volatile investments. When the HCM-BuyLine® turns positive, those investments are redeployed to capture gains at attractive prices.

During the financial meltdown in 2008, the HCM-BuyLine® signaled to exit the stock market, avoiding much of the worst market draw-down in the past decade (as indicated below).



This graph illustrates the dates when the HCM-Buyline® would have precipitated a shift in asset allocations.

Five Ways to Navigate a Volatile Market

Fortunately, there are several ways to navigate a volatile market.

1	Seek to avoid major losses through risk management	Overlaying investments with a risk management strategy can potentially help identify major market downturns to avoid portfolio devastation.
2	Seek to implement a math-based strategy	The rise of computerized trading is consequently making investing challenging. With a math-based strategy, investors can seek to move in and out of the market faster, striving to minimize losses and maximize gains.
3	Move to cash/lower volatility investments during major market declines	It could take months or even years to recover from devastating losses. Investors who avoid much of a significant drop by moving to safety not only attempt to preserve assets in major market declines, but positions them ready to capture major upturns (and potentially at attractive prices).
4	Seek to remove emotion from the equation	Investors can be emotional with the swings of the market – holding a stock as it falls or selling it before it reaches its full potential can wreak havoc on a portfolio. An emotional approach to investing can hinder the ability to effectively manage investments.
5	Stay the course	Commit to a strategy and risk level that not only helps one sleep at night, but with the goal of meeting current income needs and long-term financial needs.

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About Howard Capital Management, Inc.

“We practice active money management. We do not believe in buy and hold, nor do we favor asset allocation. We must be strategic and tactical to bring our best defense against a market that does not think or feel.”

–Vance Howard, CEO and Portfolio Manager of Howard Capital Management, Inc.

Howard Capital Management (HCM) is an SEC Registered Investment Advisory Firm, specializing in money management services for private clients, brokers, and broker dealers since 1999.

The vision for HCM originated during the 1987 stock market crash. With the opinion that incurring financially devastating losses due to market volatility is unnecessary, we initiated a plan to create a company with the main objective to protect capital during market downturns.

After years of research, we developed a disciplined, systematic, and non-emotional method of investing that is designed to protect our clients’ assets during market declines. In 2000-2002 as the market dropped, we reduced our clients’ exposure to equities through our systematic method. In 2008, our proprietary risk management tool, the HCM-BuyLine®, again gave us the signal to exit the stock market. Consequently, we moved to the safety of the sidelines during much of the decline.

We believe HCM has developed into an experienced money management firm with a proven track record. As we continue to grow, we look forward to using our systematic approach to assist financial advisors and investors with their investment goals.

Offering a variety of investment options through separately managed accounts, proprietary mutual funds and ETFs, and retirement tools, we believe we have a portfolio to suit almost every investment need and goal. For more infromation regarding our services, please visit www.howardcm.com.

Howard Capital Management, Inc. (“HCM”) is registered with the SEC and only transacts business where it is properly registered or is otherwise exempt from registration. SEC registration does not constitute an endorsement of the firm by the Commission, nor does it indicate that the advisor has attained a particular level of skill or ability. Changes in investment strategies, contributions or withdrawals, and economic conditions may materially alter the performance of your portfolio. Different types of investments involve varying degrees of risk, and there can be no assurance that any specific investment or strategy will be suitable or profitable for an investor’s portfolio. Past performance may not be indicative of future results.

HCM Indicator. The HCM-BuyLine® (Indicator) our proprietary indicator is used to assist in determining when to buy and sell securities. When the Indicator identifies signs of a rising market, HCM then identifies the particular security(ies) that HCM believes have the best return potentials in the current market from the universe of assets available in each given model and signals to invest in them. When the Indicator identifies signs of a declining market, the Indicator signals to move clients’ investments to less risky alternatives. Not every signal generated by the Indicator will result in a profitable trade. There will be times when following the Indicators results in a loss. An important goal of the Indicator is to outperform the market on a long-term basis. The reason is the mathematics of gains and losses. A portfolio which suffers a 30% loss takes a 43% gain to return to the previous portfolio value. The Indicator is a reactive in nature, not proactive. They are not designed to catch the first 5–10% of a bull or bear market. Ideally, they will avoid most of the downtrends and catch the bulk of the uptrends. There may be times when the use of the Indicator will result in a loss when HCM re-enters the market. Other times there may be a modest positive impact. When severe downtrends occur, however, such as in 2000-2002 and 2007-2008, the Indicator has the potential to make a significant difference in portfolio performance. Naturally, there can be no guarantee that the Indicator will perform as anticipated. The Indicator does not generate stop-loss orders that automatically sell securities in the portfolio at a certain price. As a result, use of the Indicator will not necessarily limit your losses to the desired amounts due to the limitations of the Indicator, market conditions, and delays in executing orders.

Please remember to contact HCM, in writing, if there are any changes in your personal/financial situation or investment objectives for the purpose of reviewing/evaluating/revising our previous recommendations and/or services, or if you want to impose, add, or modify any reasonable restrictions to our investment advisory services. Please Note: Unless you advise, in writing, to the contrary, we will assume that there are no restrictions on our services, other than to manage the account in accordance with your designated investment objective. A copy of our current written disclosure Brochure discussing our advisory services and fees continues to remain available upon request. LASS.VMGuide.040820

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