MVPs for Tough Markets

High-scoring returns during bull runs get the most cheers. We believe winning over the long haul, however, requires a well-rounded portfolio with a mix of positions that react differently when market conditions change. At times, your most valuable players (MVPs) could be those that seek to provide some defense when the going gets rough.

Performance Replay

Although there were stumbles along the way, the stock market found its footing to post a remarkable gain for 2019. It continued to hit new highs until mid-February when it plunged as the coronavirus spread across the globe, oil prices dropped dramatically, and a worldwide economic slowdown unfolded.

With volatility increasingly putting assets at risk, it's important to consider strategies that may help mitigate the impact of declines.

Stock market represented by the Russell 1000 Index. Source: Morningstar. The index does not reflect fees, brokerage commissions, taxes or other expenses of investment. Investors cannot invest directly in an index. Past performance is no guarantee of future results.
High-Quality Players Stand Out

When the going got rough, high-quality players stepped up. As shown in the chart below, the higher its quality, the better a stock held its ground.

High-Quality Stocks Gave Up Less Ground Than Low-Quality Stocks in the First Quarter

Total Return of Stocks in the Russell 1000 Index by Quality Ranking (%)

<table>
<thead>
<tr>
<th>Low Quality B or Worse</th>
<th>High Quality B+ or Better</th>
<th>Highest Quality A+</th>
</tr>
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<tbody>
<tr>
<td>-31.4%</td>
<td>-27.0%</td>
<td>-19.0%</td>
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Getting to the Goal Line

Do you have enough high-quality players in your roster to tackle downturns? Given their history of delivering superior performance with less risk over time, quality stocks may be a good option for many investors today.

Characteristics of Quality Companies

- Strong management teams
- Leading market positions and strong brands
- Business models that provide steady streams of income
- High standards for environmental, social impact and corporate governance issues
- Low levels of debt that can help them weather a market downturn or acquire other businesses

Russell 1000® Index is a market-capitalization weighted, large-cap index created by Frank Russell Company to measure the performance of the 1,000 largest publicly traded U.S. companies, based on total market capitalization.

The Quality Rankings System is managed by S&P Global Market Intelligence. It attempts to capture the growth and stability of earnings and the dividends record with a single rank. The rankings are generated by a computerized system and are based on per-share earnings and dividends records of the most recent 10 years. Basic scores are computed for earnings and dividends and, then, adjusted by a set of predetermined modifiers for changes in the rate of growth, stability within long-term trends and cyclical. Adjusted scores for earnings and dividends are then combined to yield a final ranking.

The Quality Rankings are based on the following scale:

<table>
<thead>
<tr>
<th>Quality Ranking</th>
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</thead>
<tbody>
<tr>
<td>A+</td>
<td>Highest</td>
<td>B+</td>
<td>Average</td>
<td>C</td>
<td>Lowest</td>
</tr>
<tr>
<td>A</td>
<td>High</td>
<td>B</td>
<td>Below Average</td>
<td>D</td>
<td>In Reorganization</td>
</tr>
<tr>
<td>A-</td>
<td>Above Average</td>
<td>B-</td>
<td>Lower</td>
<td>LIQ</td>
<td>Liquidation</td>
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Investment return and principal value of security investments will fluctuate. The value at the time of redemption may be more or less than the original cost. Past performance is no guarantee of future results.

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