FINANCIAL MARKET UPDATE - March, 2020

Our Views: The Current Environment, Volatility, & Strategy

Current – Week ending 2/28/20

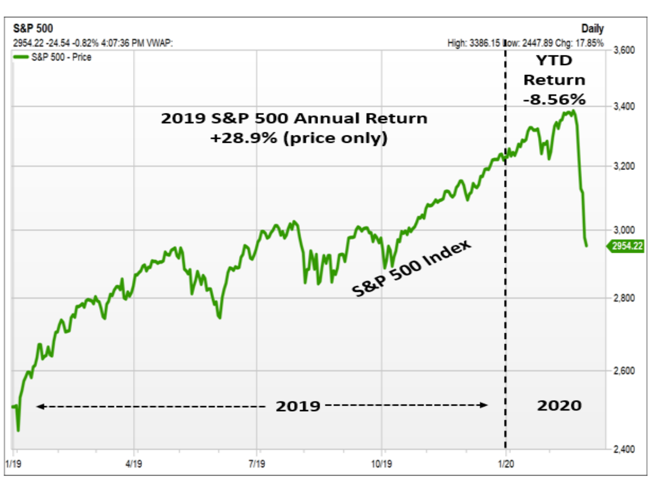
During the past week, equity markets traded pretty much on nothing but the fear surrounding the potential global spread of the Coronavirus and the havoc that environment could wreak. While the spread of the virus is a very serious threat, as investors it is important to keep what has occurred in perspective e.g., that the panic selling of (primarily) equities represents the fear of ***what may*** occur, not necessarily ***what will*** occur. The magnitude of the spread of the virus, and the time it takes to discover an effective inoculation, will ultimately determine its effect on the economy and the capital markets.

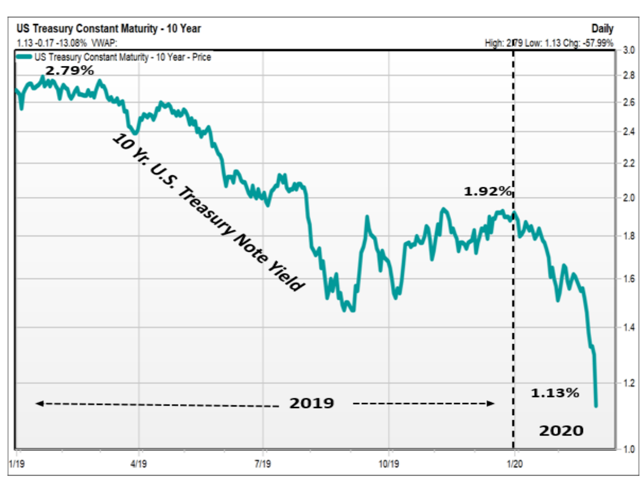
That said, last week was a notable one on Wall Street. Each of the major stock indexes e.g., the NASDAQ, the S&P 500 and the Dow Jones Industrials declined by more than 11%. In fact, the decline of 11.49% by the S&P 500 in six trading days was the fastest decline of more than 10% from a high (February 19, 2020) by that index in its history.[i]

Bonds too were volatile, and yields fell to record lows as investors sought the safety of U.S. Treasury securities. During the past several days the 10 and 30-year U.S. Treasury bonds have yielded record lows of 1.03% and 1.58% respectively[ii]. Its hard to imagine a 30-year bond yielding only 1.5%. Interest rates in general are likely to remain low and in fact, depending on the maturity of the investment, could decline further. Declining rates are, in large part, a result of the U.S. Fed and other central banks reducing interest rates (“easing”) to avoid a recession which could be exacerbated by the Coronavirus.

The stock markets appear over-sold on a short-term basis, and some degree of recovery is likely (and perhaps underway at this writing) but further declines should not be a surprise when considering the uncertainties. It is always difficult to ignore volatility (the “pain” of a decline always seems more intense, than the euphoria of a gain) but that probably is the best tact to take. Until a clearer understanding of the depth and breadth of the Coronavirus’ impact is understood, volatility will likely continue.

The charts displayed below display the volatility of not only the past several weeks, but also the past fifteen months during the stock markets’ ascent to record highs and yields to historic lows.



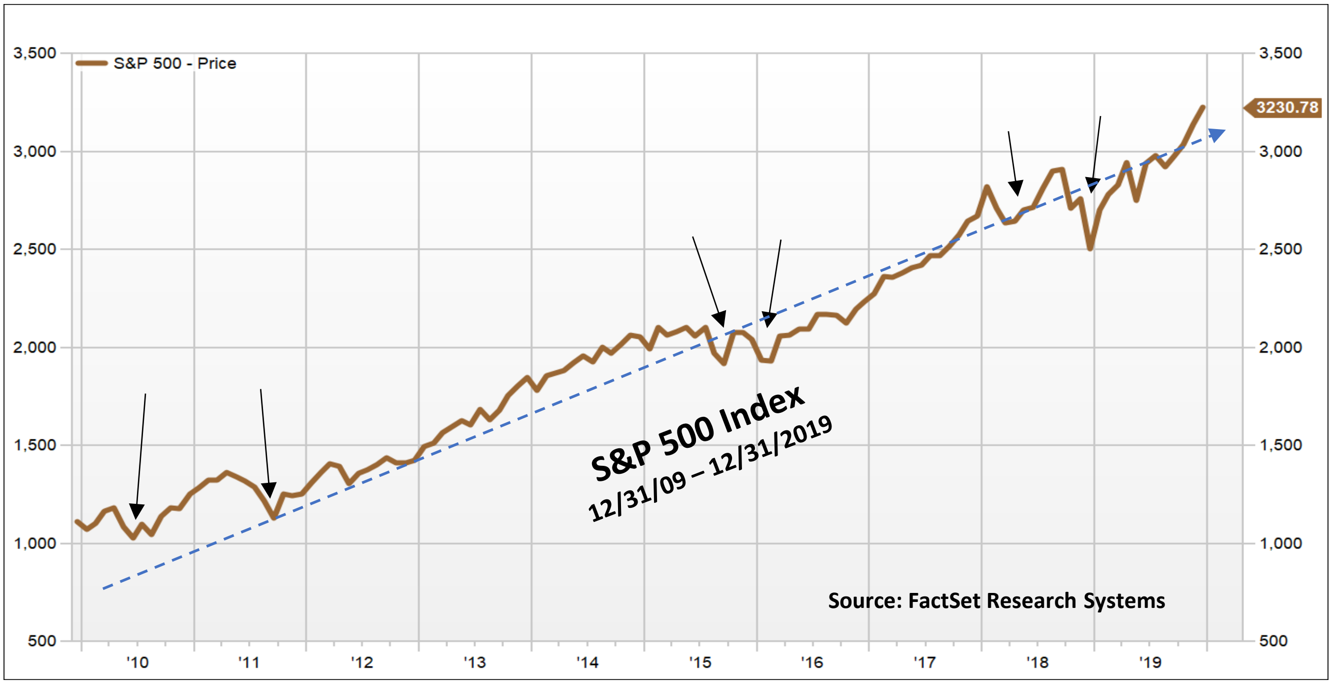


*Year-to-date 12/21/2019 to 2/28/2020

Source: 2 charts FactSet Research Systems

Our Views: The Current Environment, Volatility, & Strategy
Pg. 2.

It's not possible to completely ignore volatility. However, when investors view equity market returns from a longer-term perspective, whether ten, twenty, or thirty years, the ferocity of short-term volatility appears much more muted and much less significant, particularly in-light of historic equity market (S&P 500) returns. The previous decade ending 12/31/2019, shown below, is a good example.



During this ten-year bull market period, the S&P 500 experienced six "corrections" of at least 10%[iii] but less than 20% (indicated above) and yet provided a total compound annual rate of return, not including dividends, of 11.2%.[iv] The ability to adjust to economic, political, military or other challenges is a credit to the long-term strength of American leadership, resources, and ingenuity and is reflected in U.S. equity markets.

The angst of volatility:

Volatility is a regular and normal occurrence in markets and assets that are priced on a daily basis such as stocks, bonds, mutual funds etc., as various factors (like the Coronavirus) impact the short-term valuation of these investments with no regard to the underlying fundamentals. Today's instantaneous dissemination of information can be a positive or a negative and heightens the volatility of such investments. We have obviously just experienced this.

Real estate, like our homes or investment property, doesn't experience the same volatility since these types of assets aren't priced daily or even on a yearly basis. The market ultimately refocuses on underlying qualitative and quantitative fundamentals for a much more accurate longer-term "gauge" of valuation of an investment, e.g., equities are valued on the quality and consistency of growth of a company's earnings, revenue, dividends, free cash flow and the strength of management and use of debt, rather than the latest rhetoric or short-term trends. As you know from previous conversations these are factors that we have discussed many times.

Our focus is to invest in a company for the benefit of consistent long-term growth of principal and income based upon fundamentals. We don't trade a company's stock based upon current news events. Market volatility is of interest to speculators and day traders but is of no interest to long-term investors with the goal of attempting to consistently and tax-efficiently growing their client's assets and protecting their purchasing power against inflation.

What is an Investment Strategy?

Reactive moves or panic trading is not an investment strategy. Market timing is gambling on a moment in time and is also not an investment strategy. Investing is a process over time. You can apply that same logic to market volatility and corrections as they are a moment in time and tend to be historically short-lived versus constructive fundamentally driven positive markets. One should be invested or not invested. Investing with a long-term approach based upon a well-diversified portfolio made up of strong fundamental characteristics that meet personal goals and objectives is an investment strategy. In summary, as we have suggested regularly, focus on that long-term strategy, stay diversified and concentrate on fundamentally strong investments. Don't let the "noise" of the day alter your long-term strategy of benefiting from a portfolio comprised of solid fundamentals and diversification.

We take very seriously the challenges that are currently facing the U.S. and other countries around the globe. The consequences of these challenges may or may not be quite meaningful but at this time either outcome is uncertain. During this period when panic selling appears to be the norm, and represents the fear of what may happen, not necessarily what will happen, we thought it was important to put short-term price changes in to perspective (think Ebola, SARS, Brexit, North Korea's missiles, Iran, impeachment, etc.) and to emphasize the importance of a well-disciplined investment strategy.

Thank you very much for the opportunity to serve you. We value highly our relationship with you and would appreciate any questions, comments or critique' that you would like to share. We look forward to meeting with you soon

---

---

[i] Barron's, March 2, 2020

Ii United States Treasury Dept., Treasury yields 3/2/2020

[iii] BMT Research, March 2, 2020

[iv] Parkview Partners Capital Management 3/2/20