QUARTERLY INSIGHTS APRIL 2020

Since March 16th when we activated our Company's Business Continuity Plan, our staff has been working remotely. This Plan is designed to ensure continuation of client services without disruption in the same manner and effectiveness as if employees were on-site. My team and I encourage you to reach out if you have any questions or we can help in any capacity. We appreciate your patience in this regard and look forward to the future when we can again be of service in person.

This commentary represents our current thinking which we hope will be of benefit related to the current market and economic environment impacted by COVID-19.

Financial markets never like uncertainty. Although many things stemming from this devasting virus are unprecedented, investor behavior continues to follow historical patterns. When fear, uncertainty, and doubt are investors' primary concerns, some react by selling what they can in order to increase their cash levels. In other words, if more vulnerable/higher risk financial assets become extremely depressed in price or cannot be easily sold, investors turn next to selling higher quality assets. One clear example seen recently is in liquid markets where higher quality/lower risk assets trade…investment grade corporate and municipal bonds. Even these markets came under temporary stress for a few days due to the extraordinary volume of selling in order to generate cash by desperate investors. Such irrational drops in prices create unusual bargain opportunities for investors eagerly waiting for others to make mistakes in judgement. On the other hand, when positive news provides investors more guidance and optimism, such as a decline in daily COVID-19 victims or when economic growth will resume, financial markets have not been shy about enthusiastically responding upward in a big way.

Another inherent trait of investors is believing that some people have answers to questions that cannot be known with precision. Experts abound citing that our economic recovery will be V-shaped, while others say U-shaped. No two recessions are alike. In this case, there are several yet-to-be answered questions relating to the pending recession: how long will it persist, how steep will it be, and what rate of recovery will ensue? The wide range of uncertainty around the path of the virus and the effectiveness of government stimulus leads to four broad recession/recovery scenarios. With limited economic data at this time, a square-root or U-shaped recovery seems most likely. Both assume the spread of the virus is contained and a rebound in economic activity is forthcoming, supported by the unprecedented scale of monetary and fiscal stimulus initiatives, but the rate of business growth resumes below pre-virus levels.

The square-root shaped recovery is differentiated by a quicker rebound with the spread of the virus declining in the next 30 days, corporate America coming back online soon thereafter, and no permanent change in consumer behavior. The U-shape assumes a delayed recovery for the economy due to a second wave of infection rates, a longer lag before restored employment, and the overall U.S. economy is held back by some industries slow to regain late 2019 activity. Geographic areas where new technologies are on the right side of a post-COVID world are positioned to recover first, such as Silicon Valley and Seattle, with a large presence in cloud computing or cities bolstered by companies in biotech/health sciences and other essential services and goods. Other areas where many jobs are dependent upon travel, energy, hospitality, and entertainment are expected to lag. More specifically, in locations like Nevada and Florida, where much of the populations are more dependent on tourism, conventions, and large entertainment venues will require their current business models to evolve in order to comply with new social distancing preferences and possible requirements.

A key indicator to monitor in coming months will be the level of temporary layoffs, and in particular, the number of permanent in comparison to temporary layoffs. If the crisis is brief, with many rehired in the next three months, then the case for a square-root shaped recovery improves. But if the crisis is extended, many of these temporary layoffs will likely turn permanent, leading to a prolonged period of unemployment and point to a U-shaped recovery.

One of the most frequently asked questions is…should I take advantage of the recent stock market drop before it fully recovers and resumes its longer-term, upward advance? Warren Buffett has already responded to this question, "A market downturn doesn't bother us because it is an opportunity to increase our ownership of great companies with great management." Buffett's mentor and professor at Columbia Business School, Benjamin Graham (1894-1976) beliefs included, "The intelligent investor is a realist who sells to optimists and buys from pessimists." This approach was seen successfully executed recently by those money managers and investors who bought high quality debt instruments weeks ago when they approached very attractive prices and yields.

Few successful investors can resist buying when high quality financial assets are on sale. Interestingly, some investors ask during these periods if they should sell, understandably fearful that their net worth may decline even further if near-term circumstances worsen. Benjamin Graham's advice, "Keep your emotions in check…the investor's chief problem and his (her) worst enemy is likely to be himself (herself)…in the end, how your investments behave is much less important than how you behave." Graham's investment philosophy was developed and proven successful during the early 1900s, the most challenging period in history when bear, not bull markets, were the norm.

We would not be surprised if elevated stock price volatility persists at least until we can get a sense that the virus is contained and the impact to the economy and company earnings can be quantified. The duration of this pandemic is unpredictable and unfortunately too soon to know. But we can surmise that the U.S. Federal Reserve Bank and other central banks across the world are not out of bullets, as challenged by some including the media, and still have sufficient power to influence financial markets. Given the unprecedented circumstances, markets to date have performed far more favorably than in 2008-2009. Our central bank has committed to do whatever is necessary to maintain orderly and efficient financial markets and has proven so.

We hope that you found the comments expressed provide further explanation and clarification in relation to today's critical events. Thank you for your continued support and confidence.

Sincerely,

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