March 12, 2020

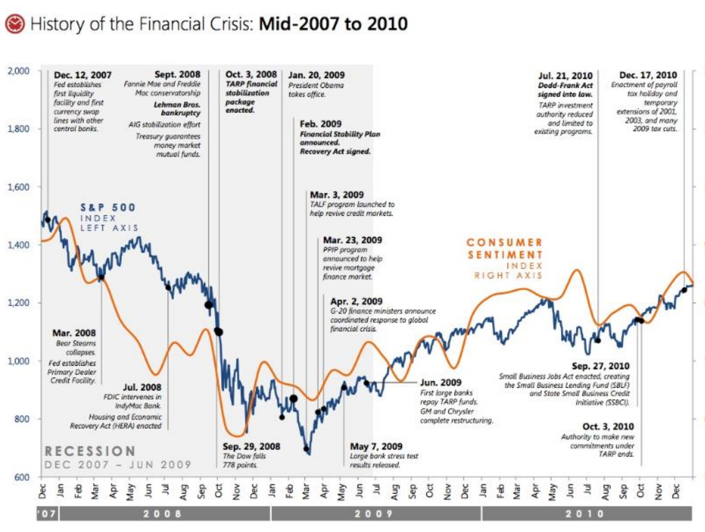
Dear Clients and Friends,

We don't want to bombard you with comments on the market or on the coronavirus; but we know many of you are concerned. Like you, we are worried for our families and friends. Some of our kids' schools are closed, events and vacations are being cancelled. We are learning about social distancing.

We have contingency plans in case we need to close the office. Everyone has laptops and can work from home.

In our previous memo, we mentioned that we consider this an opportunity to re-balance. It is (or will be), but don't get the wrong idea. We're not trying to be heroes and pick the exact bottom. We haven't made any changes yet. We don't over-react in either direction when markets go haywire. In fact, we are much more likely to sell when markets go straight up than we are when markets go straight down. When things settle down, we'll try and get some bargains… again, simply by re-balancing to our long-term targets.

We are disappointed with the government's response so far, and that is adding to the market volatility. In 1987, 2000-2002, 2008-2009 the government made decisive action, but not always right away. The Fed screwed up by allowing Lehman Brothers to fail, but later pulled out every trick they could imagine. Congress initially voted down a bailout package. That resulted in a dramatic stock market plunge and they reversed themselves a few days later.



During the financial crisis, George W. Bush stepped into the background and Ben Bernanke, Fed Chairman, and Hank Paulsen, Treasury Secretary took charge. We need a similar reaction now, along with leaders from the medical community such as Anthony Fauci at the National Institute of Health.

I said in the last memo I thought the government was getting on the right path. They aren't there yet, but I believe they are beginning to move in the right direction. Today, the Fed announced steps to provide liquidity. Speaker Pelosi is in talks with the Treasury Secretary. The Senate has postponed their recess in order to take up the House bill when it gets to them.

Everyone bashes the media these days. We won't jump on that bandwagon, but the hype is not helpful. Just give us the facts, please. For example, one reporter was saying today, "I'm not being alarmist, but this virus is 10 times more deadly than the flu." He didn't say that the flu had a 0.1% fatality rate, and COVID-19 is thought to be 1%. One percent is a lot less scary. The financial press is as bad or worse. It's a recession! Bull market is over! It's a Bear Market! Some of these definitions are silly. It's a Bear Market if it goes down 20% but not if it's only 19.8%, which is what happened in the 4th quarter of 2018.

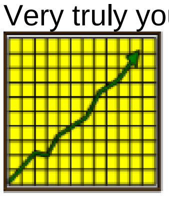
Here's another look at the S&P 500 from a long-term perspective

We can't say for sure, but this could be a particularly nasty correction within this 10+ year bull market. How we come out of this will be determined by how badly the economy is hurt. During the recession that followed the financial crisis, unemployment rose from 5% to 10%. The financial system was threatened both in the US and abroad. The real estate market collapsed. Will this be as bad? It seems unlikely, and if not, the markets are over-reacting. We know that fear and greed drive investment behavior.

In closing, we want to reiterate that we're not out there making significant adjustments to your portfolio. Some clients have called and want to buy. Some want to sell. If your emotions are driving you, then call. You need to be able to sleep. We believe in remaining calm, waiting for things to settle down, and then we'll begin rebalancing so we can help you achieve your long-term goals.

As always, let us know if we can do anything to help.

Very truly yours,



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