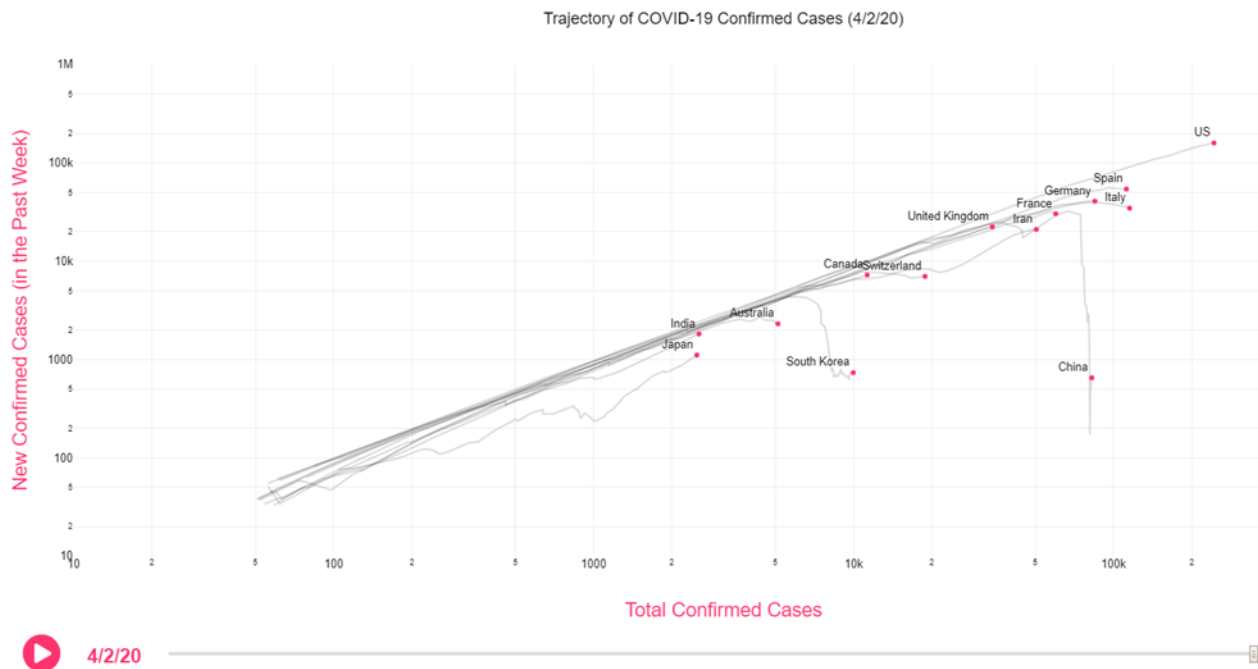




April 3, 2020

Dear Clients and Friends,

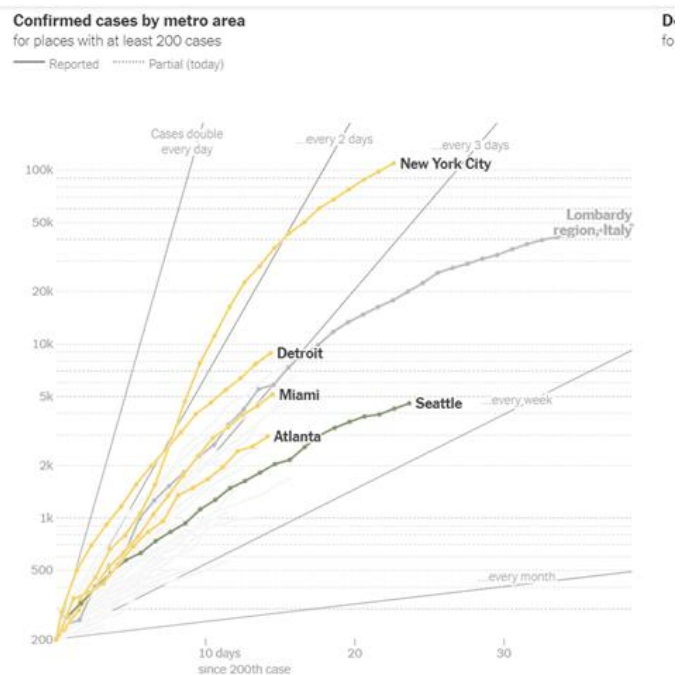
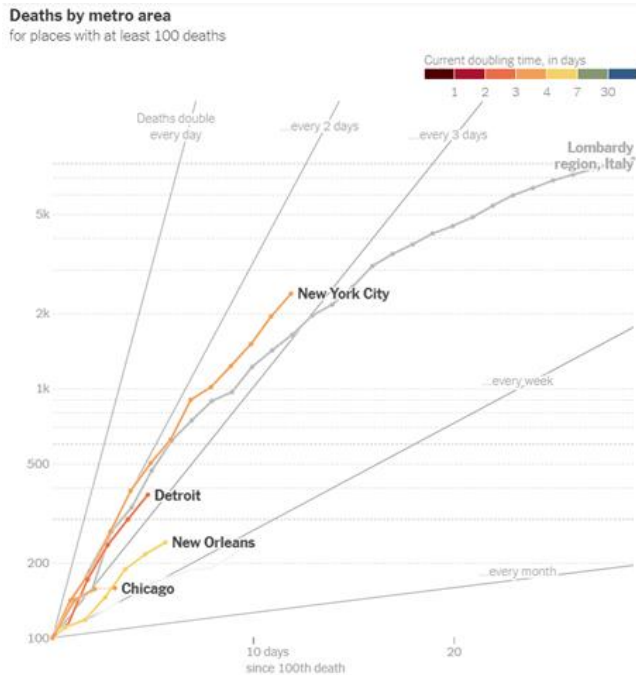
Some of the recent COVID-19 Charts:



Created by [Aatish Bhatia](#) in collaboration with [Minute Physics](#). World data provided by [Johns Hopkins University](#). US state data provided by [NYTimes](#). Shortcuts: +/- for daily changes, space to play/pause. [Credits & Source](#) [Stay safe!](#)

Grim reading to be sure. Despite our desire to believe that we as Americans are exceptional (and in many areas we certainly are), our management of this epidemic is not one of those areas. You can see from the chart above that China and South Korea seem to have gotten the virus under control. Their new cases have flattened, and in South Korea more people are being released from hospitals than are entering.

Our progress is tracking similar to that in Italy, but in NYC it is progressing even faster than it did in the Lombardy region, which has a similar population. NYC is more densely populated, which probably explains the difference. Things are beginning to improve in Italy, that is one hopeful sign.



Perhaps it is our political system, which has always had a tension between Federal and State powers, that has led to a disorganized response. Or, perhaps it our leadership. But we do not have an organized response. We still have different states with different rules about staying at home. States are competing with one another to find ventilators and even masks for medical workers. Experts are publicly debating whether masks would help (of course they would!). Here in Colorado, we can't even agree on whether golf courses should be open. It's not only embarrassing, it's worrisome about how and when we will get this under control. Hopefully (and probably), we will again do as Winston Churchill is believed to have said<sup>1</sup>, "You can count on Americans to do the right thing, but only after they have tried everything else."

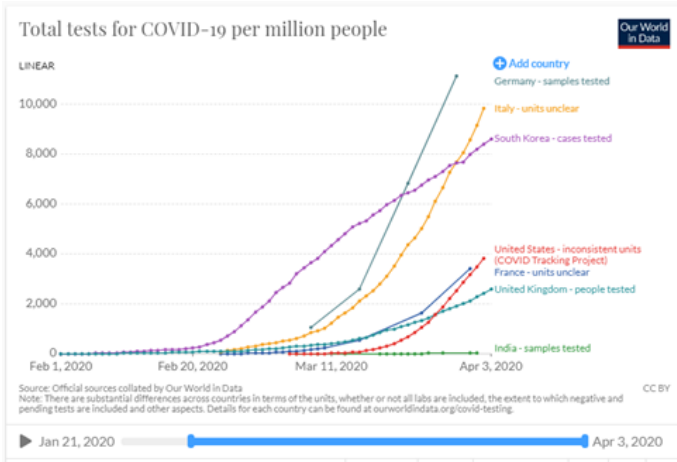
On the economic front, the unemployment situation is still unfolding. 3 million people filed for unemployment last week, and 6 million more this week. The unemployment rate for March rose to 4.5%, but it is a lagging indicator. It is probably going to be 10% or more, maybe 15%.

Some clients have asked whether this will become a Depression similar to the Great Depression from the 1930s. I don't think so. There were so many factors that contributed to that era. I'm not sure about the technical definition of a depression, but during that period unemployment reached 25% and the whole period lasted eleven years. Every forecast I have seen assumes the negative impact of the disease on the economy will be sharp but brief. I believe this to be true, so I do not think it will go down in history as a Depression. But it may very well be one of the deepest recessions in history and almost certainly the fastest decline.

The speed of the recovery is dependent on management of the disease. First, the growth in the number of new cases has to be reduced<sup>2</sup>. Next, the number of new cases needs to begin declining, and then to stop. Because we are doing an inadequate job of testing and quarantining, it is hard to predict when this will occur. I believe massive testing should be one of the highest priorities. If we knew who was sick, they could stay home, and others could go back to work. In this regard, the US is still behind:

<sup>1</sup> When I looked this up to get the words correct, I was surprised to find this quote was probably originally from Abba Eban who was an Israeli diplomat, and may have never been used by Winston Churchill (but it is widely ascribed to him).

<sup>2</sup> I borrowed several ideas and words from a recent letter written by Howard Marks, a well known American investor and co-founder of Oaktree Capital Management.



It is true the US has tested more than other countries, but on a per capita basis we lag.

As mentioned in previous notes, the Government has enacted numerous programs to provide liquidity and buttress the economy. Nevertheless, there is no avoiding a recession. The stimulus should really be considered an economic stabilization effort; one inevitable problem is timing. Beginning next week businesses will begin applying for loans; however, banks are unsure how the process is supposed to work, what rate to charge, who is responsible for the liability, etc. This will take a little while to sort out. Government

payments will begin going out directly to individuals, but how long will it take? How many should-be recipients will be missed? And for how long will the aid continue? How long will \$3,400 for a family of four last? And, we see reports of people spending days attempting to file for unemployment. I don't blame the Government on their economic response. They have been swift and the package enormous; the speed of the crisis has overwhelmed the system. Expect many stories about hardships as we work through this.

How about the markets? This week showed a bit of normalcy.



After last week's rebound, we've had some down-up-down-up days this week; even single days that started up and ended down. To me, that means you have buyers and sellers working to find the appropriate fair value for assets. In other words, the market is working.

Here is a chart of the US dollar index. You can see the crazy trading earlier in the month, and how it is returning to something approaching normalcy.



Another indicator is the market volatility index, known as the VIX. This index has begun to subside from historically high levels. None of these should be taken as meaning the Bear Market is over, but they do indicate a better functioning market.



Finally, I would like to address a few Client concerns I've heard this week. One regards the risk of banks, and specifically having more than the FDIC insured limit of \$250,000 in any one bank. In general, it is widely assumed that banks are in good financial condition now. Unlike the Great Financial Crisis, this is not a banking crisis. Banks were not over-leveraged. Nevertheless, there really is no reason to keep more

than \$250,000 in a bank. Move anything more than that into a money market that holds only US Government securities – preferably only US Treasuries. That can be done in your brokerage account. Your money is totally secure there.

Secondly, what is the risk of municipal bonds? I'll share a note I sent a Client earlier today.

*"Your concern is noted. I won't try and sugarcoat anything, and of course we're in uncharted waters, so surprises are likely.*

*Municipal bonds fall into 2 – 3 broad categories. Basically, there are revenue bonds that are subject to specific revenue sources. For example, E-470 bonds get revenue from the toll road. There are also sales tax revenue bonds that are paid by specific sales taxes approved by voters. Then there are bonds that come from tax sources such as cities, school districts, and others. The safest generally are called General Obligation bonds, which just as the name implies are a general obligation of whatever the source is, such as the City of Boulder, or the County of Boulder, or Boulder Valley School District.*

*In my almost 40 years of buying municipal bonds, I've only seen a handful of defaults in the municipal bond market. There were bonds in Washington that defaulted in 1983, ironically called Whoops bonds – actually they were (WPPSS) Washington Public Power Supply System. They were bonds issued to build nuclear power plants that ended up being cancelled and the bonds were forced into bankruptcy. In 2008 there was a parking garage in Jackson, Mississippi. Puerto Rico, Detroit, and Illinois had bonds that had to be restructured. The default rate of munis is infinitesimally small.*

*Even in the corporate bond market I've only seen a few defaults from investment grade corporations. I remember Union Carbide had to restructure bonds back in the 1980s due to a disaster in Bhopal that killed over 3,000 people, and then the General Motors fiasco in the GFC (Great Financial Crisis). The point is each of these were unique and extreme events.*

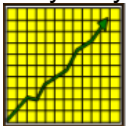
*One major difference now is the Federal Reserve has basically said they'll do whatever it takes to keep everyone solvent this time. They've learned from the previous crises we've been through. They are already stepping in to support muni bonds by backstopping muni bond money market funds, and generally providing liquidity to the market.*

*Having said all that, I'll ask Zach to divide your bonds into the different categories and try to identify where there might be the greatest risks. We already do this around things like climate change, or oil & gas concentrations. We'll get back to you with our research and try to reduce risks."*

In Summary, asset prices may decline again as the information on the virus and the economy changes. But as uncomfortable as it is, these declines in prices are opportunities. We continue to research and make adjustments to our portfolios to make them better for "The Other Side". I have started a notebook and am collecting ideas about "The Other Side" and look forward to sharing them with you in the future. How will things be different? If you have ideas, please send them to me.

I look forward to the day when you will not hear from me each week, but I suspect that will not be next week. Until then, take care...

Very truly yours,



Brad Bickham, CFA, CFP®  
Partner | Chief Investment Officer  
**And Your Entire Colorado Financial Mgmt. Team**

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