



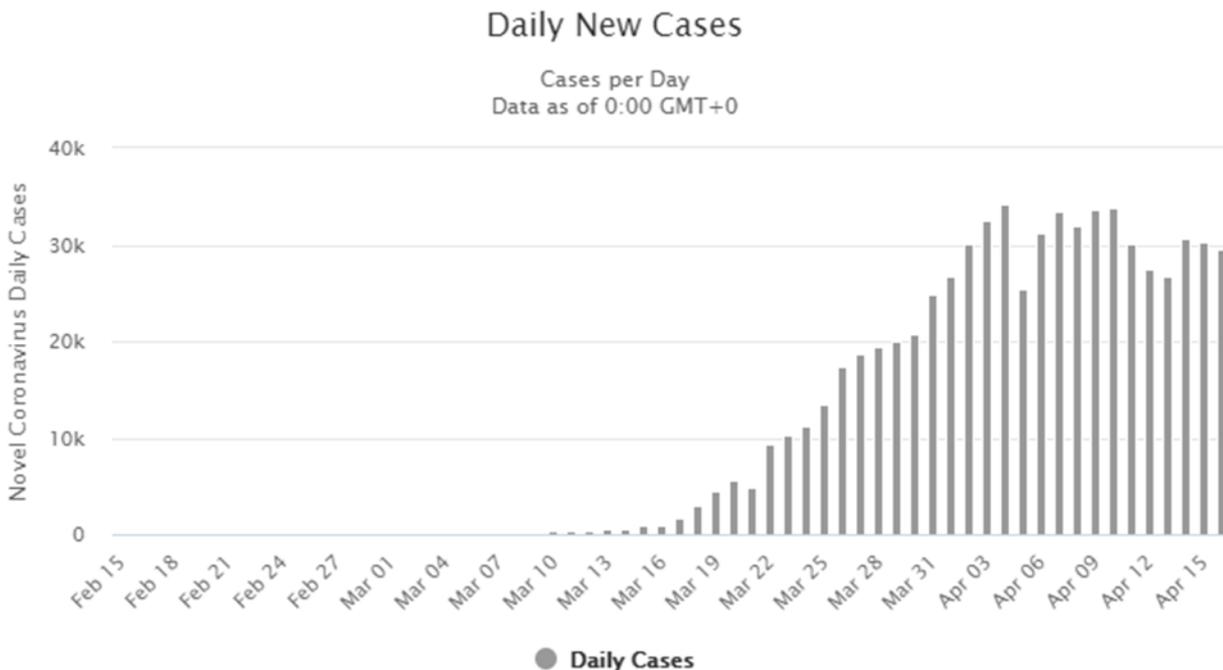
April 17, 2020

2.2 million coronavirus cases worldwide (+38% from last week)  
147,400 deaths (+52% from last week)  
662,000 US cases (+42% for week)  
29,000 US deaths (+74% for week)  
3.4 million tested in US

Dear Clients and Friends,

I can't believe this is letter # 8. Based on the market recovery, you might think the crisis is over. Most US stocks are up 25% or more from their lows in late March. The global stock index is up over 20%. And yet, confirmed cases exceed two million and are up 38% in a week. Deaths are up 52% worldwide and 74% in the US – in a week! How do we reconcile these seemingly disparate paths?

Let's start with the events this week regarding COVID-19 in our usual review of the pandemic, the economy, the government's response, and the markets.

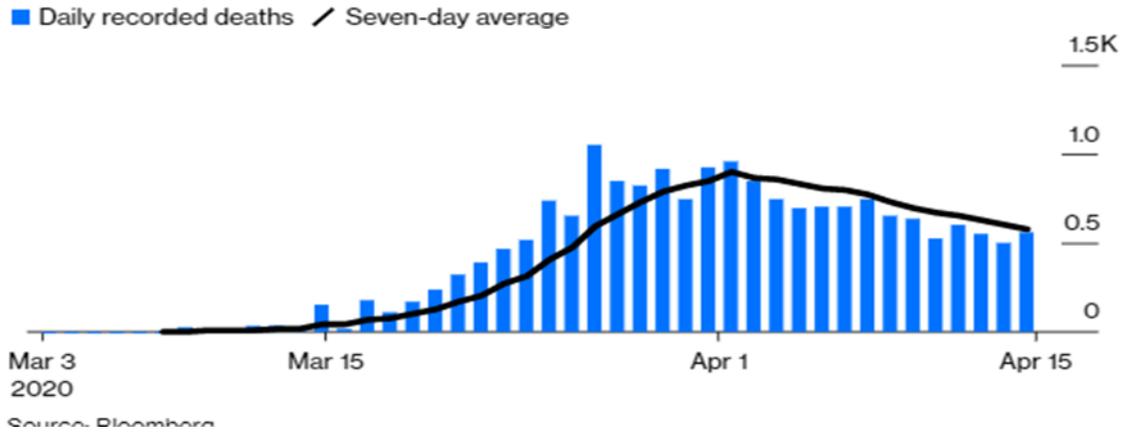


This is the daily new cases in the US. Whether looking at new cases, deaths, or hospitalizations - there is an improvement (or at least a plateau). In several countries, there is a marked improvement. So, we can say, for now, the worst is probably behind us. There could be another flare up if we relax social distancing

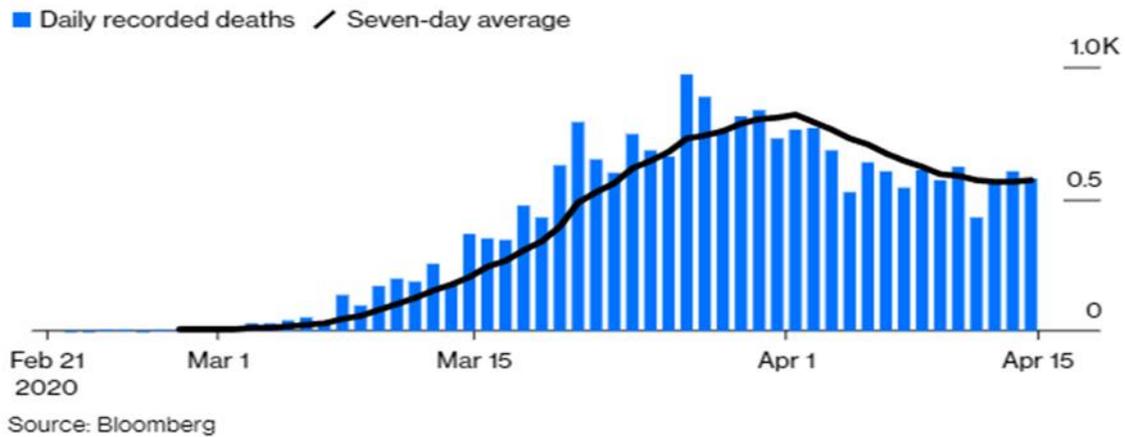
restrictions too fast or too broadly, but that is unlikely. We were caught unprepared and reacted slowly, but that won't happen again.

But, having said the worst is behind us does not mean it is getting better quickly. The flattening of the curve is not symmetric.

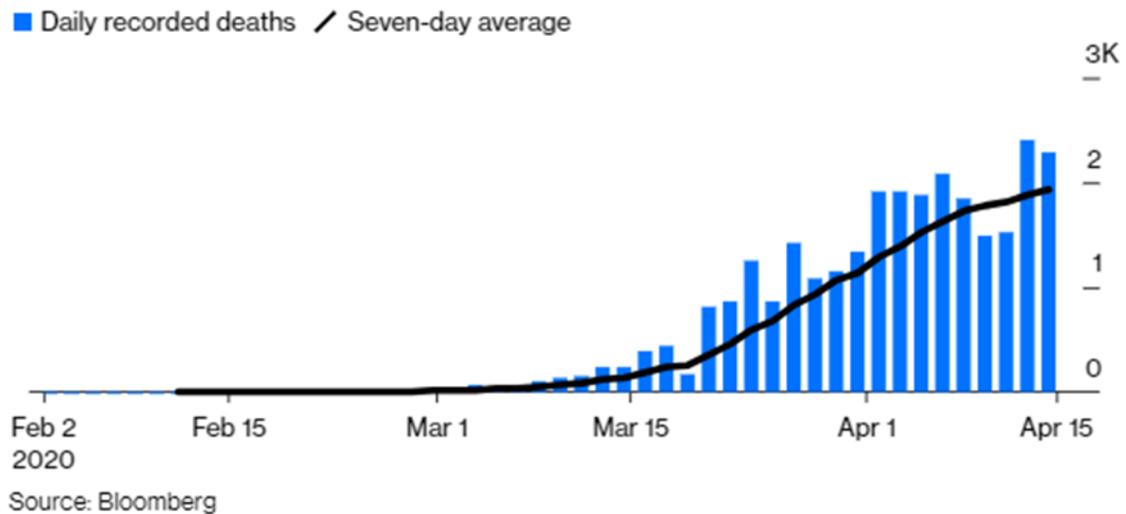
### Covid-19 Deaths in Spain



### Covid-19 Deaths in Italy



### Covid-19 Deaths in the U.S.

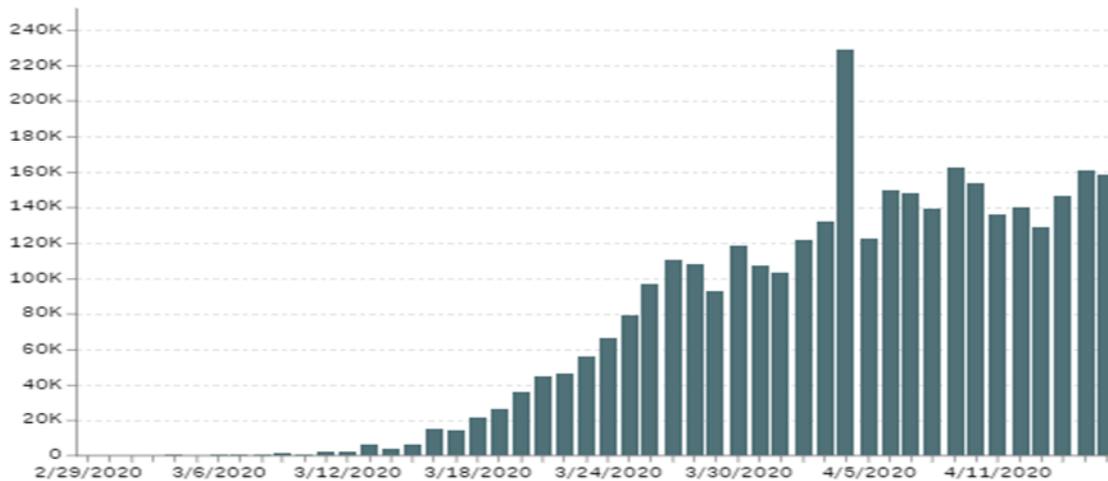


How about testing? Nowhere near where it needs to be:

## America's coronavirus tests have plateaued



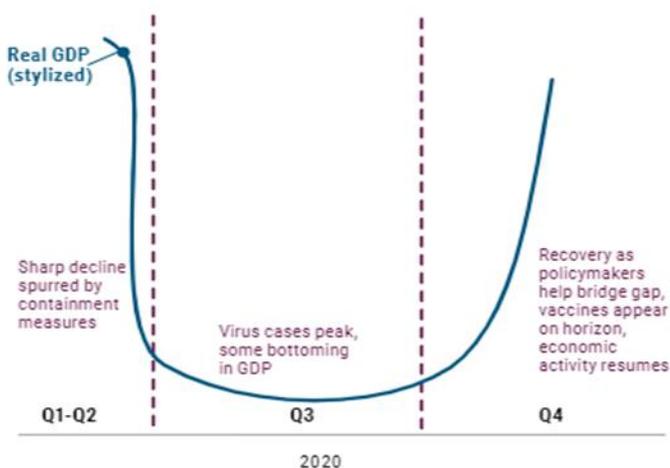
The number of new Covid-19 tests reported each day in the US



How about new developments in science and response?

- In Bloomberg, Michael Lewis writes about a lab in California created and built in eight days, called Biohub. With 200 volunteers, it is now processing 2,500 tests a day, at no cost. It can process a test in three hours.
- The antiviral drug Remdesivir (made by Gilead) was shown to be effective on a trial including 125 people, 113 of them classified as having a severe case of the virus. Most were released from hospital in less than a week. Two died, which is a very low number given how deadly it has been to those who get severely ill.
- Antibody testing is being done to determine if blood from recovered COVID-19 patients can be used to protect hospital workers.
- General Motors re-tooled two plants and delivered 250,000 surgical masks and 30,000 ventilators.

All in all, we can say there was improvement this week – at least in the rate of change, and there were a few hopeful developments in science and response.



## The economy

The economic news is really bad. There were 5.2 million more Americans filing for unemployment last week, bringing the total to over 22 million. Could it be seen as a positive that 5.2 million is lower than the previous two weeks? Probably. China's economy had its first quarterly contraction since they began reporting in 1992. There really isn't anything more to report on the economy. It's bad. We know that. We'll be looking for signs of improvement, but there aren't any yet because most of the world is still in lockdown.

We are still on the left side of this curve, but probably near the bottoming process. Coming out, and how long we're in the bottom, will depend on how quickly we can get out of quarantine.

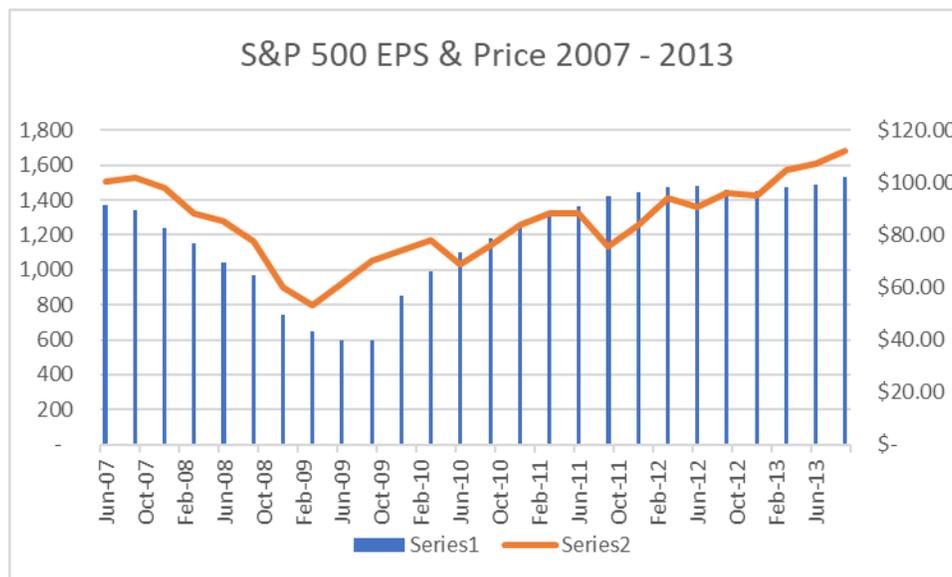
## Governmental Responses

Most countries continue under some kind of lockdown orders. Dates range from the end of April until May in most places. Pressure is building to begin relaxing the rules, so we can expect some changes within a few weeks. The White House has released a set of principles but has acknowledged that it's really up to the states. New York has extended their lockdown until May 15<sup>th</sup>. Colorado's stay at home order currently expires April 26<sup>th</sup>. Denmark is taking steps to open up by allowing children to go back to school. Norway and Austria are scaling back restrictions, and Wuhan has lifted their lockdown. We can therefore expect the economy to gradually begin working again over the summer. But we are unlikely to see stadiums, airplanes, or restaurants full anytime soon.

The government's efforts to help the economy are moving along... inefficiently, but moving. Some people have already received checks or deposits directly into their accounts. There is a website where you can check your status [https://www.irs.gov/coronavirus/get-my-payment?mod=article\\_inline](https://www.irs.gov/coronavirus/get-my-payment?mod=article_inline). The Payroll Protection Plan (PPP) for small businesses has approved so many loans it has already run out of money. Presumably, they will increase it, but there is bickering in Congress. For the first week since this began, there were no new announcements from the Federal Reserve.

## Business and the Markets

Corporations began reporting 1<sup>st</sup> quarter earnings this week. For the most part, there aren't any surprises. Bank profits tumbled, whereas Proctor & Gamble's (maker of toilet paper, laundry detergent, and cleaning products) sales surged. The most consequential development for me this week was a report predicting S&P earnings for 2021 of \$170.



This report crystalized a thought I've been having for a couple of weeks. The market is looking ahead and has written off 2020 earnings. We know they will be down. Now analysts are trying to estimate the recovery and how fast earnings will get back to where they were before. Shown above are the S&P earnings and price graphed together during the Great Financial Crisis (GFC). You can see that prices (line and left scale) followed earnings (bar and right scale) down, but the price began recovering before earnings. Since this recession is expected to be short, earnings are expected to recover quickly. But will they? Based on \$170 earnings, the S&P is trading at about 16.7x earnings today vs. a 32 year average of 18.9. So just as we pointed out in January and February that the market was trading 10% or more above average, today it is 10% or more below average. However, that is based on estimated earnings next year! That earnings estimate is highly uncertain.

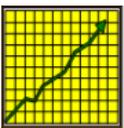
We'll finish with just one chart this week – the S&P 500. The channel I've drawn is the uptrend that started in 2009. Based on the accepted rules of Bull Markets and Bear Markets, The Bull ended because the market fell 25%. Also, based on those rules the Bear is already over and we've entered a new Bull because it has now risen more than 20%. I don't know who makes these rules. They are really just expressions and somewhat arbitrary.



The more important point is that if earnings recover to \$170 in 2021, and are then growing somewhat normally afterwards, then we may look back on this period as a really nasty correction in an otherwise growing long term economic cycle. At this point, that seems unlikely. Alternatively, if the recovery is slower as many believe it will be, then the recovery in the market will be slower too. It is too early to tell right now, so we think it is too early to give the all-clear sign but it feels better than it did three weeks ago.

One final point... in most taxable accounts you will see some trades made for what we call tax loss harvesting. The idea is as follows... say you have \$100,000 invested in mutual fund ABC. It falls 20% to \$80,000. We sell ABC fund and buy XYZ fund with the \$80,000. You realize a capital loss of \$20,000 that can be used against future capital gains. If XYZ recovers to \$100,000, you still have the \$20,000 that you can use. It provides more flexibility in managing capital gains in the future.

Very truly yours,



Brad Bickham, CFA, CFP®  
Partner | Chief Investment Officer

***And Your Entire Colorado Financial Mgmt. Team***

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