

Dear Valued Client,

We hope all of you are safe and doing well!

Just like there has been panic buying of paper products, sanitizers and bottled water, there has been panic selling of all investment classes: stocks, corporate, government, municipal bonds, including high quality bonds and even gold.

Panic buying is never a good buying opportunity when prices rise due to excessive demand. Panic selling is never a good investment strategy when investment prices are falling off a cliff. Panic feeds panic.

This panic helped turn a healthy Bull Market into a Bear Market in record breaking time.

On February 19th, the S&P 500 and the NASDAQ markets hit all-time highs.

It took only 22 trading days to fall 30% from those record highs.

It is the fastest drop of this magnitude in the history of the markets, according to Bank of America Securities.

This is the fourth Bear Market I have experienced and none of them ever felt good.

A recession now looks inevitable for the U.S. and the rest of the global economy.

We were way overdue for a recession.

The United States actually for the first time in its history did not have a recession in a decade: 2009-2019.

The last recession occurred during the financial crisis 2008-2009.

The Great Recession of 2008-2009 was due to a near-collapse of the global financial system.

It was atypical for a recession in its severity.

This current and potential recession has been caused due to a health crisis.

The U.S. economy and the banking system is in much better shape now than they were in 2008.

In 2008 we were worried about the financial system collapsing, today that same system will help us recover.

On average, most recessions last about a year and a half.

**Remember, recessions are a normal part of the economic cycle:**

The economic cycle: **expansion** (the economy is growing), **peak** (the economy is overheating), **contraction** (the economy is in decline, enters a recession) and **trough** (the decline/recession of the economy has ended and it begins to expand).

Due to severe selling of all asset classes in the past four weeks, the Federal Reserve has been providing massive liquidity into the U.S. financial system by injecting over a trillion dollars into short-term corporate bonds, mortgage-backed securities and the muni bond markets. The credit markets have been stressed due to the worries of corporate debt defaulting among certain American companies, especially in the energy sector. The Fed has also lowered interest rates to near zero.

The Federal Reserve has assured Americans that they will support the financial markets, no matter how many times they need to print money. Unlike previous crises, they have not placed a maximum amount on their fiscal stimulus. This is not a bailout. This is a relief package to support our financial markets and American companies. One of the primary functions of the

Federal Reserve is to maintain the stability of the financial system and to contain any systemic risk that may occur.

Contrary to false rumors, the government actually made a profit of \$15.6 billion on the Troubled Asset Relief Program (TARP) during the Great Recession in 2008-2009. That was a bailout for the banks.

<https://www.washingtonpost.com/business/economy/bailout-highly-profitable-for-taxpayers-when-you-look-at-the-right-numbers>

Congress will also provide financial relief to the airlines, cruise lines, the restaurant industry, small businesses and just as importantly, for the American citizens. It may not be a perfect relief package, but any help is certainly better than no help.

These various monetary (Federal Reserve) and fiscal (the government), stimulus plans should not be considered bailouts. They are relief packages. This virus has affected American businesses, both large and small; bad business practice did not create this crisis.

This a Black Swan event, much like the terrorist attacks in September 2001.

And, even though the next few weeks might be little more difficult concerning the reporting of virus victims, we will prevail and we will overcome.

Never bet against America, its citizens, or our capitalist know-how. It would be a losing proposition to do so. Like all the other many crises our country has endured over the past 124 years, this too will pass.

(Please see the attachment of the Dow Jones Industrial Average, 1896 – 2016, you will have to rotate the image for proper viewing).

These current troubling times will go away, the markets will bottom out and rebound and the economy will eventually recover. Despite today's positive market returns, we do not think the bottom is in yet.

<https://www.marketwatch.com/story/this-rally-is-a-symptom-of-a-bear-market-not-a-bull-market-2019-01-23>

<https://realmoney.thestreet.com/investing/bear-market-rallies-can-be-spectacular-14979151>

Once market conditions do improve, we will be putting your cash back to work in equity investments that are at a discount in price.

If you would like a quick review of your accounts, please contact us. Justin and I would love to hear from you.

Best,  
Phil Krznarich