April 21, 2020

Dear Valued Client,

We hope all of you are doing well and being safe!

As fiduciaries it is our responsibility to provide you with unbiased and prudent information regarding the economy, the market, and most importantly, your money.

Our #1 task is to protect your assets to the best of our abilities, especially during fast moving markets.
Our #2 task is to help you make money over the long-term to the best of our abilities.

Even if the stock market is a forward looking mechanism, it recently has disconnected itself from the mid-term future, troubling financial reality.

Investors have been paying attention to the danger and the tragedies of the virus itself and ignoring the other danger of the virus; the severe impact it has had on the economy due to the effects of the quarantine and shutdown of American business. The U.S. and the rest of the world's economies have been damaged, some severely.
For the past two weeks, the stock market has skyrocketed, fueled by emotional panic buying.
This is just the opposite of what it was doing when there was emotional panic-selling, which began on February 24th and lasted through March 23rd.

Year-to-date% markets results:
Dow Jones Industrial Average = 23,018.88 -19.3%
NASDAQ = 8,263.23 -7.9%
S&P 500 = 2,736.56 -15.3%

The Economy

Reality is finally settling in for the markets because key economic data and information is starting to be reported.
We are hearing from some Wall Street analysts that they are "shocked" at the severity of the damage to the economy and for the current results of 1st quarter 2020 corporate earnings being announced.
Are you kidding?
These analyst's jobs are to be careful and objective in determining and forecasting upcoming financial conditions and to provide that information for their institutional and individual investors. They are also supposed to be objective and "close to the mark" when forecasting corporate quarterly earnings. With the wealth of information available to anyone on the internet and just plain common sense of what I call "connecting the dots", there should not be any "shock" at what has been happening and could be happening in the future.

A snapshot of up-to-date economic reports that have been released last week:

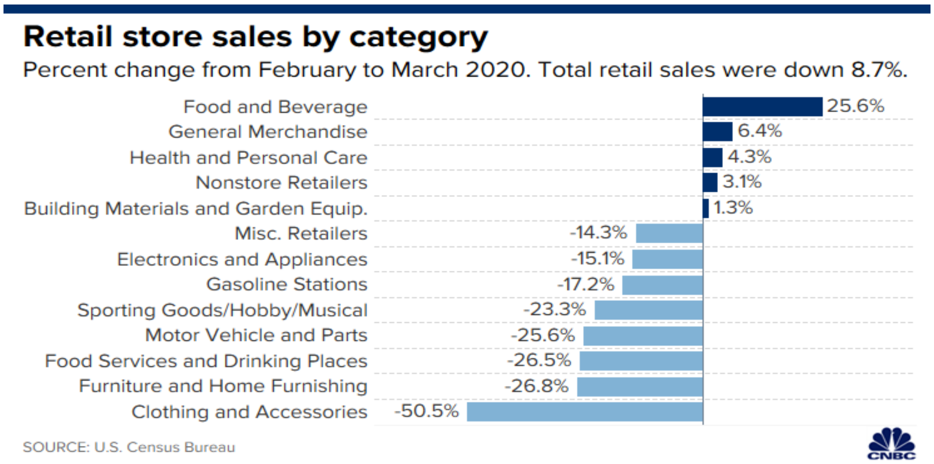
4/15/2020 Empire Manufacturing Index **https://www.marketwatch.com/story/empire-state-manufacturing-index-plunges-to-record-low-in-april-2020-04-15**

4/15/2020 Industrial production fell -5.5% in the United States for March, 2020, the biggest decline since November of 2009**.** **https://tradingeconomics.com/united-states/industrial-production**

4/15/2020 US Homebuilder Sentiment fell in April 2020, biggest monthly dive ever.
https://tradingeconomics.com/united-states/nahb-housing-market-index

4/15/2020 Retail sales in March - The worst monthly decline ever, which includes food and healthcare.
https://www.marketwatch.com/story/retail-sales-in-the-us-plummet-a-record-87-in-march-at-start-of-coronavirus-crisis-2020-04-15

Retail sales breakdown provided by CNBC, 4/15/2020:



4/16/20 Housing starts in the US plunged 22.3% - The drop in housing starts was the worst monthly decline since1984. **https://www.cnbc.com/2020/04/16/us-housing-starts-march-2020**

The most important economic update is unemployment:

4/16/20 On Thursday, U.S. jobless claims came in at 5.25 million for the week, bringing the total to 22 million Americans who have lost their jobs in the last 4 weeks. The pandemic has caused the greatest job loss since the Great Depression in the 1930's.

On April 9th, the week prior, when the job loss on that day came in at 6.6 million job loss, the market's attempt to fall back and possibly try to retest the lows of March 23rd was stunted by the sudden $2.3 trillion bazooka of capital injection plan by the Federal Reserve, which they immediately announced within a few minutes after the jobless claims were released pre-market opening. This was planned in advance. They also stated that they will now do whatever it takes to support the markets. Even though we do support the plan, we do not support the ***timing*** of the plan. The Fed did now allow the markets to digest the severity of the job loss and allow it to adjust accordingly. Nor did they allow the first injection of liquidity from March to fully work its way through the financial system. They immediately gave the candy to the markets, resulting in a quick sugar high. The Fed will not be able to fire the bazooka every time the markets get the jitters.

In our opinion, investors are over estimating the speed of the economic recovery. It is going take time to restart the massive U.S. economy. It is going to take time to recover those 22 million jobs that have been lost. And when the quarantine is over, how many Americans will be willing to jump on an airplane and go to Disneyland, visit a theater, attend a sporting event or even go to a restaurant where their servers are wearing masks and gloves?
Until a vaccine becomes available, we are always going to be wondering who is infected? This fear will have a negative impact on consumer confidence, which in turn will impact the recovery of the economy.
We cannot just flip a switch and have the economy go full speed.

4/17/20 New York Federal Reserve President John Williams say the economy won't be back to 'full strength' by end of 2020. https://www.cnbc.com/2020/04/17/new-york-fed-president-williams

4/20/2020 Oil Crash - due to a lack of demand from no one driving and no one flying, storage facilities for oil are at capacity levels nationwide. The price of a barrel of West Texas Intermediate crude to be delivered in May, which closed at $18.27 a barrel on Friday, ended Monday at a negative $37.63; that is -$37.63. "That effectively means that sellers must pay buyers to take barrels off their hands." Source: Wall Street Journal

The Markets

Current lower bond yields are sending warning signals for the days and weeks ahead, indicating further economic weakness coming down the road. Why pay attention to the bond market?

First of all, the stock market has just over $30 trillion in total market capitalization, while the bond market has more than $40 trillion.

Second, where the institutional stock market analysts are smart, the institutional bond analysts are the smartest. The bond market historically has had an uncannily ability to have a true pulse of future economic upturns and downturns. **With the current low yields, the bond market has not "endorsed" the validity of the market rally.**

According to investor titans Jeffrey Gundlach, Marc Lasry, Bill Gates, Paul Singer, Mark Cuban and others; it could take 18 months before the economy recovers to where it was on February 19th and the stock market is currently overvalued and overpriced.

4/20/2020 "The world is more screwed up' than the stock market is currently reflecting, warns billionaire investor Howard Marks, the founder of Oaktree Capital, commenting in a CNBC interview Monday.
https://www.marketwatch.com/story/the-world-is-more-screwed-up-than-the-stock-market-is-currently-reflecting-warns-billionaire-investor-2020-04-20?mod=home-page

Where is Warren?

Has Warren Buffett not yet seen a bottom in the markets and is waiting for a retest of the market low? In every stock market crash dating back to1974, one of the greatest investors of all time was among the first to always step in and buy stocks.
https://www.google.com/search?sxsrf=ALeKk02GGsZZlZuq1A8710_FRhUExWZfSQ%3A1587501689293&source=hp&ei=eVqfXvyED8O6sQWKlonQDA&q=warren+buffett+1974&oq=warren&gs_lcp=CgZwc3
(The link maybe a little racy for some).

He boldly encouraged investors to invest during those trying times, proclaiming it was a great buying opportunity. As of now, he is sitting on $128 billion in cash and has not bought any companies, stocks nor has he added to his current holdings. He has remained eerily quiet during this pandemic crisis.

We stated in our March 24th email, we did not believe the bottom was in at that point of time.
Now for two reasons and despite Mr. Buffett's quietness, we believe the March bottom **might** hold.

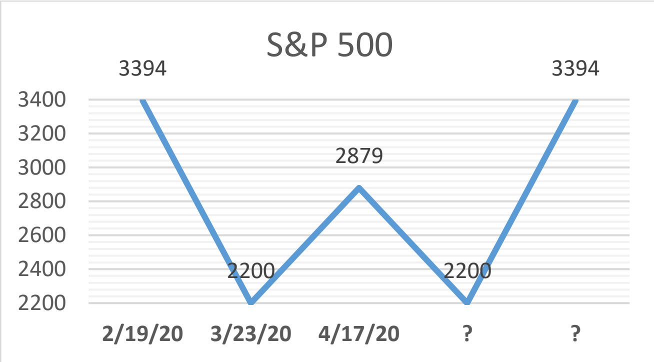
Reason #1 – Unlike 2008-2009, during this crisis the Federal Reserve has been very quick (maybe a little too quick in the last injection), to be proactive in funding $4.3 trillion to support the financial markets. In addition, Congress and the President have provided an additional $2 trillion to support Main Street America (individuals and small business owners).

Reason #2 – Even though we are still expecting the market to go down near and retest the 2,200 low, the Fed stated on April 9th that they are committed to do whatever it takes to support the financial markets.
Only a financial or a health-shock type of event could cause the March low to be breached.
The Federal Reserve probably has at least one bazooka left in its arsenal to support the financial markets and protect the S&P 500 March low.

We are expecting a "W " type of a stock market recovery. We will begin to buy equities during this current downside trend. The stock market will remain in a very choppy, whipsaw type of environment.

The all-time S&P 500 intra-day high of 3,394 was set on 2/19/20 and the most recent intra-day low was set at 2,192 on March 23rd. The S&P 500 reached the midpoint in that range at 2,879 on April 17th. That approximate 55% retracement is very typical of Bear Market rallies off the lows. We now have a short term trading range established.

To keep it simple, the short-term current S&P 500 trading range is 2,900 on the upside and 2,200 on the downside:



<u>What Have We Done and What We Will Do</u>

On April 7th we repositioned 8%-10% of client's cash holdings into the Vanguard Total Bond Market ETF (BND), for those clients that did not already own BND. We have not initiated any stock/equity purchases during this Bear Market rally.

In the past three weeks, in the majority of our client accounts, we have placed multiple common stock and equity ETF's buy limit trade orders on our Schwab Trading Platform. The investments are in sectors that will provide good opportunities for growth when the economy does eventually begins to heal. The trade amounts are small, representing between 3% - 5% of your account value. Based on Fibonacci retracement levels, these orders are currently below their current individual market prices and can be changed or canceled at any time until the orders are filled. It is our intent to be buying in small increments as the market descends back near the 2,200 low on the S&P 500.

There is a good possibility that at some point, there could one or two days of capitulation, when extreme and violent **heavy volume** of stock selling occurs. These instances of capitulation result in a final flush out of the weak hands, (the Nervous Neds & the Nervous Nellies), which often represents a true bottom in the markets. This did not happen when the March 23rd low of 2,192 occurred in the S&P, on ***low volume***. If and when this does happen, we will be heavy buyers of stocks and equity ETFS, to take advantage of that weakness.

As always please contact Justin or myself with any questions you may have.
Thank you for allowing us the opportunity to serve you.
And please keep safe!

Respectfully,

Phil Krznarich