STRAIGHT TALK

1st Quarter 2020

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Market Returns

Domestic Large
S&P 500
-19.60%

Domestic Small
Russell 2000
-30.61%

Intl Developed
MSCI EAFE
-22.83%

Emerging Markets
MSCI EM
-23.60%

Fixed Income
BBgBarc US Aggregate Bond
3.15%

**Returns are from Morningstar, with dividends reinvested, and are through 3/31/20*

This has been one of the most challenging quarters we've ever seen, one that will result in many changes in the way things are done going forward. Without getting too political or philosophical, this has given us a chance to reset expectations for how we live our lives. Many social and business norms will be altered because of this, and many existing trends will likely be accelerated, such as the use of work at home technologies and enhanced medical tech. This has exposed some areas of markets that were perhaps extended beyond reasonable risk/reward metrics and in many places created new opportunities for investments in the weeks and months ahead. While markets have recovered somewhat from the recent lows, we feel that they might be ahead of themselves at the moment. Given the uncertainties that still exist we would not be surprised to see a bit of a pullback at some point in the near future.

Volatility has been the rule this year. The S&P 500's roughly 30% drop from the Feb 19th high marks the quickest dip into a bear market ever witnessed. This has so far been followed by a significant rebound off those lows through early April. Stresses throughout markets could be felt, whether it was liquidity issues in bonds, or a historic spike in market volatility. In addition, we saw an oil price war breakout between OPEC and Russia over production cuts and the role of US shale producers in global markets. Thankfully, both sides recently agreed to a record 9.7 million barrel per-day production cut, which should provide some stability to oil prices and markets in general.

Fortunately, we were somewhat cautious heading into this year which has helped mitigate some of the recent volatility. Our fixed income positioning was fairly conservative and our stock exposures were well within normal bounds. This economic and market shock has created opportunities for new investments and we will be looking to take advantage of those as we gain some more clarity around the medium-term outlook for the economy and markets.

We still don't know what the ultimate impact of the virus will be, while already tragic from a human life perspective, the implications for the global economy and markets won't fully be known for some time. We expect (and believe the markets have largely priced in) a fairly significant hit to economic data and earnings in Q1, and Q2 is likely to be even worse. After that though, we should see a gradual improvement as some progress will have hopefully been made in slowing the spread of the virus. We believe that parts of the economy are likely to recover quicker than others. Anything relating to large groups of people being gathered or excess movement of people is likely going to be slower to return to "normal" as officials are rightly going to be cautious in opening things up.

This experience highlights the unpredictability in life and the markets. The way we manage money with Modern Portfolio Theory, actively not passively, allows us to take advantage of situations even as difficult as the pandemic. We took steps in February and March to reposition accounts. These steps have been beneficial in the short term and we expect that to continue. We'll keep evaluating and will make additional changes as needed. We'll get through this, and one day rejoice in not hearing the words coronavirus or COVID-19 for a while...almost made it through this without saying them! Please contact us if you ever have any questions or concerns. While we are following state and federal guidelines during this time, we are fully operational and available as always.

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