

# Fox-Smith Wealth Management Quarterly Commentary

## 1<sup>st</sup> Quarter Market Commentary and 2<sup>nd</sup> Quarter Economic Outlook - 2020

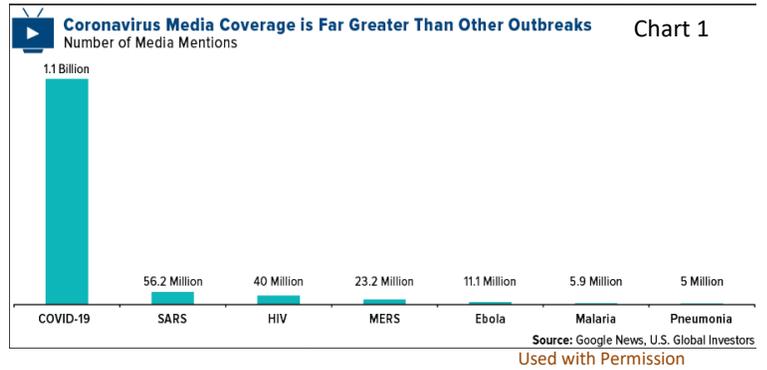
### The Market has Spoken.

### And now.....the Data

2020 Economic Outlook and Market Commentary – Gustin D. Fox-Smith AIF®, ChFC®

Wow, what a difference 90 days makes! It was just 90 days ago I published my 2019 market review and outlook for 2020. At that time, it appeared we would escape a recession and growth was building so my forecast was positive, albeit measured. And then Covid-19 came onto the scene and it has been a surreal couple of months, to say the least. One note before we dig in, you may notice a few more comics and a few less charts this quarter because, well, I felt we could all use a smile right now.

As we measured the data coming out of China, it appeared Covid-19 carried a fatality rate of nearly 5% and with its highly contagious nature, that was enough to rattle the world as cases outside China were reported. And it didn't help that the failed impeachment attempt was completed right about that same time, which left our news media in need of something to talk about that would attract viewers and clicks as soon as possible. "There's a new deadly virus emerging from Asia? Run with it!" (See chart 1) From this data it is clear they didn't have anything else to talk about. If you remember, SARS had a fatality rate of 9.4% and MERS was just under 34%!



Andy Marlette  
USA TODAY NETWORK

Coronavirus editorial cartoon gallery

The extraordinarily high potential fatality rates added to our "too much media and not enough news" situation and it was enough to whip the world into a virus fearing, TP hoarding, contact shaming frenzy and the markets came tumbling down. At their lowest point, the S&P 500 had lost almost 32%, the Russell 2000 representing U.S. Small Caps had lost nearly 41% and the MSCI EAFE representing International stocks had dropped nearly 34%. And all of this was done in just 5 weeks between February 19<sup>th</sup> and March 23<sup>rd</sup>.

I am pleased that the less extreme analysts who predicted fatality rates in the 1% - 1.5% range turned out to be correct as we are now seeing rates right around 1.4% across the total population. The interesting thing is that it seems to carry highest risk for the elderly, but not for the very young. Typical flu mortality will show greatest risk in the very young and very old, this one was most scary just for those over age 70. While a 1.4% fatality rate is many times higher than the seasonal flu, knowing which portion of our population that was most at risk allowed for a far different approach than what was taken when we believed it to be more deadly.

Now we are looking at the likelihood of a peak infection date coming very soon and, as usual, the market has most likely already set its low point ahead of time. But, other than one unemployment report last week that was nothing short of gory, to date, all of this market whipsawing has occurred while the economic data coming in continued to be extremely positive. And now that it looks like we may have escaped the worst, the data is beginning to come in that is showing the damage that a complete shutdown of economic activity can create.

We are about to see probably the worst numbers ever recorded in a number of areas. Already, weekly jobless claims have set new records with millions filing for benefits weekly. I expect we may have the largest



Used with Permission

swing in GDP within a single quarter ever. And there is no doubt that we are already in a recession. So where is the silver lining, the white light at the end of the tunnel?

The only good news is that the economy was roaring when this began. We were having the lowest unemployment rates in two generations, economic growth was strong, our consumers and businesses had extra capital and low unsecured debt, and wages were climbing. Luckily, the spillover of that positivity will be, that once we get the engine running again, hopefully it won't have to sputter slowly back to life but will respond more quickly. Add to this the unprecedented response in the form of stimulus from the government and I think we may get through this.

So, what should you do? Typically, when we have a scorched earth market event, I like to go on a buying spree, using a reasonable percentage of my total investment assets 3% - 7% Max. You see, when a specific sector



Dave Granlund  
USA.TODAY NETWORK

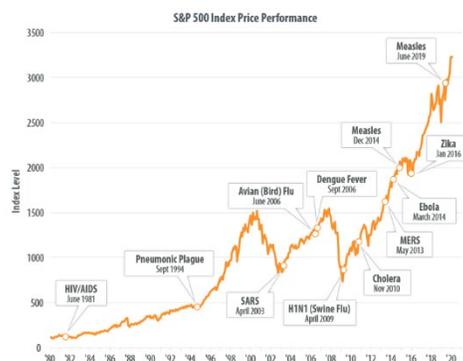
## Epidemics and Stock Market Performance

Since 1980



Chart 2

There are many factors that can impact stock market returns, but one concern of investors today is performance of the S&P 500 Index during several epidemics over the past 40 years. We believe investing for the long-term.



...ed by a major epidemic or outbreak. Below we look at the historical performance of the S&P 500 Index during several major epidemics to give us perspective on the benefits of investing for the long-term.

Epidemic	Date	S&P 500 6-Month % Change	S&P 500 12-Month % Change
HIV/AIDS	June 1981	-4.6%	-16.5%
Pneumonic Plague	Sept 1994	8.2%	28.3%
SARS	April 2003	14.6%	20.8%
Avian (Bird) Flu	June 2006	11.7%	18.4%
Dengue Fever	Sept 2006	6.4%	14.3%
H1N1 (Swine Flu)	April 2009	18.7%	36.0%
Cholera	Nov 2010	13.9%	5.6%
MERS	May 2013	10.7%	18.0%
Ebola	March 2014	5.3%	10.4%
Measles	Dec 2014	0.2%	-0.7%
Zika	Jan 2016	12.0%	12.5%
Measles	June 2019	9.8%	N/A*
<b>Average Price Return</b>		<b>8.8%</b>	<b>13.6%</b>

### Observations

- 6-month change of the S&P 500 Index following the start of the epidemic was positive in 11 of the 12 cases, with an average price return of 8.8%.
- 12-month change of the S&P 500 Index following the start of the epidemic was positive in 9 of the 11 cases\*, with an average price return of 13.6%.

Source: Bloomberg, as of 2/24/20. Month end numbers were used for the 6- and 12-month % change. \*12-month data is not available for the June 2019 measles. Past performance is no guarantee of future results.

Source – First Trust: Used with Permission

of the market gets crushed more than anything else due to its unique exposure to the pain in the market, it creates an interesting buying opportunity. Typically, when researching stocks you must carefully weigh all of the fundamental data about the company that you can digest in order to try to predict if all of that activity will result in growth and, in return, a growing stock price. But none of that is necessary when you are here, looking across the charred landscape of a post-crash market. Keep in mind that following nearly every outbreak in history, at the 6 month and 12 month points the market was higher than the previous high, usually by a significant margin. (See Chart 2)

In times like these, all you must do is find a few companies in the hardest hit sector of the market that you are pretty certain will still exist in 3-5 years. They don't have to be the best companies or the most profitable, they simply have to be breathing 5 years from now and if they still exist their prices will most likely have to be higher than their 'end of the world' pricing today.

This worked after the tech bubble imploded in 2000 and the market dropped steadily through the start of 2002. By then, traditional investing was being thrown out but high tech stocks were the biggest losers. That was when we bought a successful internet retailer named after a river in South America, a web site whose name sounds like a yodel, and a popular online auction site at pennies on the dollar compared to their current prices. And it worked again at the bottom of the financial crisis in early 2009 when we bought banks named after a stagecoach courier and one whose name sounds like a group of cities as well as a brokerage firm that has a bull in its logo. And I expect it will work again, but this time it is the leisure, entertainment and travel sectors that have been the most beaten down. There are opportunities in that group of companies, I am certain of it.

By the time you read this, we will have already invested in this sector within our Sector Rotation portfolios. We have also rebalanced our position in Financials as they are the second worst performing sector even though the average bank index shows them trading at 70%-80% of their book value. That's not a situation that will remain this way for very long.

Stay safe, turn off the news for 24 hours each week and you'll also stay sane.



PAT BAGLEY, THE SALT LAKE TRIBUNE, UT  
Pat Bagley, The Salt Lake Tribune, UT

## Summary of the CARES Act

By: Alex Liss

As the global economy has been shaken by the COVID-19 crisis, the U.S. government has taken actions never before seen in an attempt to keep the U.S. economy and all of its citizens above water in this time of crisis. Much is still unclear at this time, but on Friday, March 27th, the President signed into law the Coronavirus Aid, Relief, and Economic Security Act (CARES Act) with an objective to stimulate the national economy, as a whole. Below is a summary of what the CARES act covers and how it will aid individuals and small business around the country. If you are someone who owns a small business, or are employed by a small business, the CARES act could be very beneficial to you.

### Details about Direct Individual Payments:

Individuals and families should begin receiving direct deposits and checks from the government any day now, but the amounts will vary based on your 2020 income as follows:

#### Single tax filer

\$80,000 AGI: \$950 stimulus

\$85,000 AGI: \$700 stimulus

\$90,000 AGI: \$450 stimulus

#### Married filing jointly

\$160,000 AGI: \$1,900 stimulus

\$170,000 AGI: \$1,400 stimulus

\$190,000 AGI: \$400 stimulus

#### Head of Household:

\$115,000 AGI: \$1,075 stimulus

\$120,000 AGI: \$825 stimulus

\$130,000 AGI: \$325 stimulus

The good news is there is nothing for you to do to secure your payment. If you have given the IRS information about a checking account for direct deposit of a tax refund in the past, the stimulus payment will be electronically deposited into your account, just keep an eye out for it when they notify you the transfer has been initiated. If they do not have account information, paper checks will be mailed shortly after all the electronic disbursements have been made.

### Details about the Paycheck Protection Program

The Paycheck Protection Program (PPP) portion of the CARES Act has \$350 billion earmarked for small businesses (less than 500 employees) with a stated goal of keeping as many people employed as possible that may have otherwise been laid off due to the impact of COVID-19. However, due to a high demand for relief from the COVID-19 crisis, it is projected that the \$350 billion earmarked in the CARES Act for small businesses will be disbursed quickly. So, if you are a small business owner, know someone who is a small business owner, or are a part of a small business, you should apply for relief through the CARES Act as soon as possible.

- **What will be needed in order to apply for relief?** Businesses will need to obtain their payroll records from the prior year (March 2019-February 2020) as the amount of aid paid out will be based on a business' average monthly payroll costs over this period. Once obtained, the next step will be to find a lender who is eligible to grant these types of loans. Along with payroll records, you will need to complete a Paycheck Protection Program Borrower Application (link to the application is included at the end of this commentary)
- **When can businesses begin applying for relief?** The window for applying for these funds began on [April 3rd](#) for certain businesses and will begin on [April 10th](#) (depending on how the business is characterized) for most other businesses. In order to apply for these loans, you will need to find a lender who works with the Small Business Administration (SBA) as they will be guaranteeing the loans. However, there have been some difficulties thus far in finding lenders who are capable of issuing the relief funds from the CARES Act due to the rapid implementation of the Act. Additionally, due to high demand the banks and credit unions who are

### Financial Trivia

Last quarter's trivia question was: "The Dow Jones Industrial Average (DJIA) was launched in 1896 and represented only 12 companies. Of the original 12, what one stock remains in the DOW to this day?" Answer: General Electric. The Dow Jones Industrial Average was created in 1896 by Charles Dow and originally consisted of 12 companies: American Cotton Oil, American Sugar, American Tobacco, Chicago Gas, Distilling & Cattle Feeding, General Electric, Laclede Gas, National Lead, North American, Tennessee Coal and Iron, U.S. Leather and U.S. Rubber. At the time, these companies represented each sector of the market, thus the Dow Jones illustrated the overall performance of the market in the United States.

Four clients got this one correct! Gary D., Joel C., Larry F., and Susan V. Great Job!!

This quarter's trivia question is a 3-partner:

**In what year did the Dow Jones Industrial Average first cross 100? When did it first cross 1,000? And in what year did it first cross 10,000?**

E-mail your answers to Erin at [erin@fswwealth.biz](mailto:erin@fswwealth.biz) and we will award a prize to the first correct answer (Be honest, no "googling" it!)

taking applications are limiting access to only those companies that already have an existing business account relationship with their institution.

- **If qualified, how much can be borrowed and at what interest rate?** If your business is able to receive funding from the CARES Act, 250% of an employer's average monthly payroll can be borrowed with a maximum of \$10 million to each specific business. Along with this, the loan amount can be fully forgiven (more like a grant than a loan) if certain procedures are followed. And if you don't qualify for loan forgiveness, the interest rates will be minimal (maximum 4% rate) and the loan amount won't be due until 2 years after the funds are received.
- **For what purposes may a business use the funds provided ?** Stimulus from the CARES Act can be used toward covering Rent, Mortgage/Lease Interest, Utilities, Employee Salaries, Employee Benefits and other work related expenses incurred between February 15, 2020 and June 30, 2020. However, these funds must be used within 6 months of receipt. Also, in order to have all of the loan forgiven, businesses are now required to use at least 75% of the funds for employee compensation and they cannot reduce staff or any staff person's compensation rate. With all of the above information in mind, hopefully we will begin seeing many small businesses receiving relief in the coming weeks and months and it very well may stave off millions of layoffs that would have been necessary otherwise. We expect this will help stimulate the economy and help us regain our stable footing much more quickly.

If you have further questions after reviewing this commentary, please feel free to reach out to our office as we are always here to help in any way we can.

#### **Helpful website regarding the CARE Act and applying for the small business loans:**

- Link to the Paycheck Protection Program Borrower Application Form (as of April 3<sup>rd</sup>, 2020) - <https://home.treasury.gov/system/files/136/Paycheck-Protection-Program-Application-3-30-2020-v3.pdf>
- Link to the Small Business Administration's website for further information on the CARES Act - <https://www.sba.gov/funding-programs>

#### **~ Disclosures and Definitions ~**

**The Dow Jones Industrial Average** is a widely followed market indicator based on a price-weighted average of 30 blue-chip stocks that trade on the New York Stock Exchange which are selected by editor of The Wall Street Journal.

**The S&P 500 Index** is a capitalization-weighted index made up of 5000 widely held large-cap U.S. stocks in the Industrials, Transportation, Utilities and Financial sectors.

**The Russell 2000** index is an index measuring the performance of approximately 2,000 smallest-cap American companies

**The EAFE Index** is a stock index offered by MSCI that covers non-U.S. and Canadian equity markets. It serves as a performance benchmark for the major international equity markets as represented by 21 major MSCI indices from Europe, Australasia, and the Middle East.

The views stated in this letter are not necessarily the opinion of Cetera Advisor Networks LLC and should not be construed directly or indirectly as an offer to buy or sell any securities mentioned herein. Due to volatility within the markets mentioned, opinions are subject to change with or without notice. Information is based on sources believed to be reliable; however, their accuracy or completeness cannot be guaranteed. Past performance does not guarantee future results. Investors cannot invest directly in indexes. The performance of any index is not indicative of the performance of any investment and does not take into account the effect of inflation and the fees and expenses associated with investing.

For a comprehensive review of your personal situation, always consult with a tax or legal advisor. Neither Cetera Advisor Networks LLC nor any of its representatives may give legal or tax advice

Investment Advisor Representative of and Securities and Advisory services offered through Cetera Advisor Networks LLC, Member FINRA/SIPC, a Broker/Dealer and Registered Investment Adviser. Fox-Smith Wealth Management and Cetera are not affiliated companies. Cetera is under separate ownership from any other named entity. Registered Branch: 8471 Turnpike Dr. Ste 115 Westminster, CO 80031.

#### **Good News Corner**

In times of difficulty, it is even more important to see the good that surrounds us. To this end, we are starting a Good News Corner to share all the good that is going on with our clients during this hard time. Below is some of the good news happening within our team!

- Kinza, our Chief Operations Officer & Branch Manager, is celebrating 2 new baby calves that have been born on her ranch. She is expecting several more!
- Mike Worley, on our Liaison Team, has been trying his hand at wooden table building and has done a pretty great job. He did reassure us that he is not running off to join the woodworker's guild as he is not sure there is a large market for wobbly tables.
- Our Executive Advisor Liaison, Jenny shared that a company that use to make canoe paddles is now making plastic face masks. Through a friend at her church, this company will provide 20 face masks to the medical center where her daughter works!

Please send us your good news so that we can all celebrate the good that is still around us.

Please email your good news to [erin@fwealth.biz](mailto:erin@fwealth.biz)

Also, If you need more good news, we are enjoying the YouTube channel

"SomeGoodNews" If you get a chance and need a pick me up the URL is:

[https://www.youtube.com/channel/UCOe\\_y6KKvS3PdIfb9q9pGug](https://www.youtube.com/channel/UCOe_y6KKvS3PdIfb9q9pGug)