



Good Grandma, Bad Grandma

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May 2020 – I trust this letter finds you well. Depending on where you are in America, conditions seem to be more or less improving and the restrictions slowly easing. Here in Georgia, as you know, our governor was the first to lift the restrictions.

At first, I was confused by the suddenness but then I realized the truth: the blond women were disappearing! Was it any coincidence that hair salons were the first to reopen? Yes, I too am sorely in need of a haircut, but yesterday's two-hour wait at Great Clips was not copacetic. Today I see the wait is only 98 minutes; the trend is hopeful.

Some financial industry workers, like yours truly, are considered essential (in order to keep the economy running I suppose), so I have been going into the office a couple of days a week straight through the pandemic. It was interesting to see the development of a panic, the subsequent resolve, and now, guarded relief.

During the worst of times, in those few instances that I did come into contact with others – perhaps at the grocery store or the pet food store – I was taken aback really at how polite and caring everyone seemed to be. And I mean everybody!

This was something I did not expect, and it really made me feel a sense of togetherness. We weren't black or white, rich or poor, democrat or republican. We were just people – humans. And more specifically, Americans!

People put out flags and banners and ribbons. It looked like the Fourth of July! I really hope this attitude permeated the rest of the country the way it did here, and I would love it if some of that feeling endured.

Unfortunately, this is an election year. Ugh, I just cannot stand the politics anymore my friends. It's exactly the opposite of the positive togetherness feeling I so unexpectedly encountered earlier. People who are otherwise completely logical, calm, and reasonable can get on one side or the other of some political issue and they totally lose it. And I'm not picking sides; it doesn't matter – I have seen it from both.

Many of you know that I was raised by my grandmothers. That's right, grandmothers, plural. It was kind of a tag team effort because both of their children (my parents) were not, let's say this nicely, the most dependable.

I, of course, loved both my grandmothers tremendously. Grandma Ruth worked for the U.S. Department of Labor and was fiercely Democrat, a cousin of Joe Frank Harris, Georgia's former governor. Grandma Rudy, on the other hand, worked as a manager at the old Sears catalog center on Ponce de Leon in Midtown Atlanta, and was fiercely Republican.

You can imagine my confusion! From my perspective, there wasn't any other difference between them. They even belonged to the same sub-sect of Protestantism, which naturally led to the ill-fated union of my parents. I say this because I believe the differences between us all are much fewer and less severe than we have been led to believe.

I blame the media. All of them. They exacerbate the differences and force people to the edges instead of the middle, which is where most of us are anyway. I have clients – and family members – on both sides of the political spectrum, and no one is really ready to pick up arms and march in the street. The battlefields are more confined to Twitter and Facebook.



The charts above are the Dow Jones Industrial Average (left) and the S&P 500 (right). You can see the peak right after the first of the year, after the virus was already known. It seemed like the market didn't care too much. But then it did.

On Wednesday, February 19, the Dow was at 29,348. By Monday, March 23, the Dow had slid to 18,591, giving up almost 11,000 points – more than a third of its value. Since then, we've seen tens of thousands of cases and thousands of deaths in Italy, Spain, Britain, and of course here in the US. Now cases are ramping up in Brazil, my wife's home country.

Perhaps worse, there seems to be a second wave flaring up in China, which implies, of course, that a second wave may follow here and everywhere else, especially now that people are gathering in groups to protest the social distancing. What are you going to do? Arrest everyone and put them all in cages? No, there has to be some reasonable compromise. Certainly, Queens, New York cannot be handled exactly as Billings, Montana.

In any event, you can see from both charts above that the stock market has recovered more or less half of its losses. The Dow seems to be settling in around 24,000. Some days we have bad news, and it goes up. Some days we have good news, and it goes down. There seem to be few logical connections one can draw from headlines to stock prices at this point.

And the bad news continues to cascade in. Many retailers are facing bankruptcy, like J.C. Penney, which just filed for protection and plans to close a third of its stores,¹ and Neiman Marcus, which filed on May 7.² And ladies, there's more bad news on the shopping front: the malls in this country have been devastated. According to Scott Crowe, chief investment strategist at CenterSquare, which specializes in real estate: "90% of the malls in this country won't be here in a year."³ Wow! Can it really be that bad?

You may also remember my letter of last June, *Preparing for the Correction Part V: Fallen Angels*, wherein I warned about the teetering credit of over half of the companies in the S&P 500. Here's what I said:

In the investment grade world—ratings mean a lot. But a drop from AA to A is not really that big of a deal, nor from A to BBB, though that is taken as a warning sign. The real bright line is the separation between BBB and BB. This is like the difference between the officer's club and the mess hall—the difference is "investment grade" verses "junk." They even have a name for these recently downgraded BB's: "Fallen Angels."

As many of these BBB bonds mature and are renewed at higher rates, it will put pressure on their financials. Some of them are likely to be downgraded to BB. Those that are downgraded lose value as they are sold (often by mandate) from investment grade bond funds, ETFs, pension plans, insurance companies, charitable foundations, university endowments, and banks. This domino effect spreads to other highly leveraged companies and the situation spirals. This is the potential scenario that no one is talking about right now, but which we are preparing for.

You can read the whole letter for yourself at <https://www.magellanplanning.com/newsletters>.

Of course, I wasn't thinking about a global Coronavirus pandemic at the time I wrote that. But it was factual then, and you can only imagine how much the pandemic has exacerbated the situation. According to a recent statement by S&P Global Ratings:

Restaurants and auto parts makers accounted for the largest share of the nearly 200 consumer companies downgraded by S&P Global Ratings in recent months amid the coronavirus pandemic, according to an S&P Global Market Intelligence analysis.

From Jan. 1 through April 6, the rating agency downgraded the long-term credit ratings of 192 companies in the consumer sector. All but five of those actions occurred during March and April as companies began to limit or close operations to help slow the spread of the virus and protect workers.

The TJX Cos. Inc.; The Kraft Heinz Co.; Marriott International Inc.; Carnival Corp. & PLC; Darden Restaurants Inc.; Aramark; and automakers including Bayerische Motoren Werke AG, Daimler AG and Ford Motor Co. are among the largest corporations downgraded by S&P Global Ratings. Some of the companies have also recently tapped their credit lines to shore up cash in response to the pandemic.⁴

Did you catch that? Almost 200 companies have been downgraded! Some bonds, like Kraft-Heinz if you can believe it, are now junk! And I do not see the situation getting any better any time soon. Quite the opposite, I'm afraid.

Today, May 18, which is not the day I started this letter, the market is up almost 1000 points. Why? Well on this day the news is triple good, and the market is actually acting like it.

First, last night on *60 Minutes*:

"Well, there's a lot more we can do," Powell said during a "60 Minutes" interview aired Sunday evening on CBS. "But I will say that we're not out of ammunition by a long shot. No, there's really no limit to what we can do with these lending programs that we have. So there's a lot more we can do to support the economy, and we're committed to doing everything we can as long as we need to."⁵

Secondly, today a drug company named Moderna reported promising results:

"The early-stage human trial showed the vaccine produced Covid-19 antibodies in all 45 participants, the biotech company announced Monday. At day 43, about two weeks after the second dose was given to participants, levels of antibodies were at the levels generally seen in blood samples from people who recovered from the disease, the company said."⁶

And thirdly, oil prices surged almost 10% this morning:

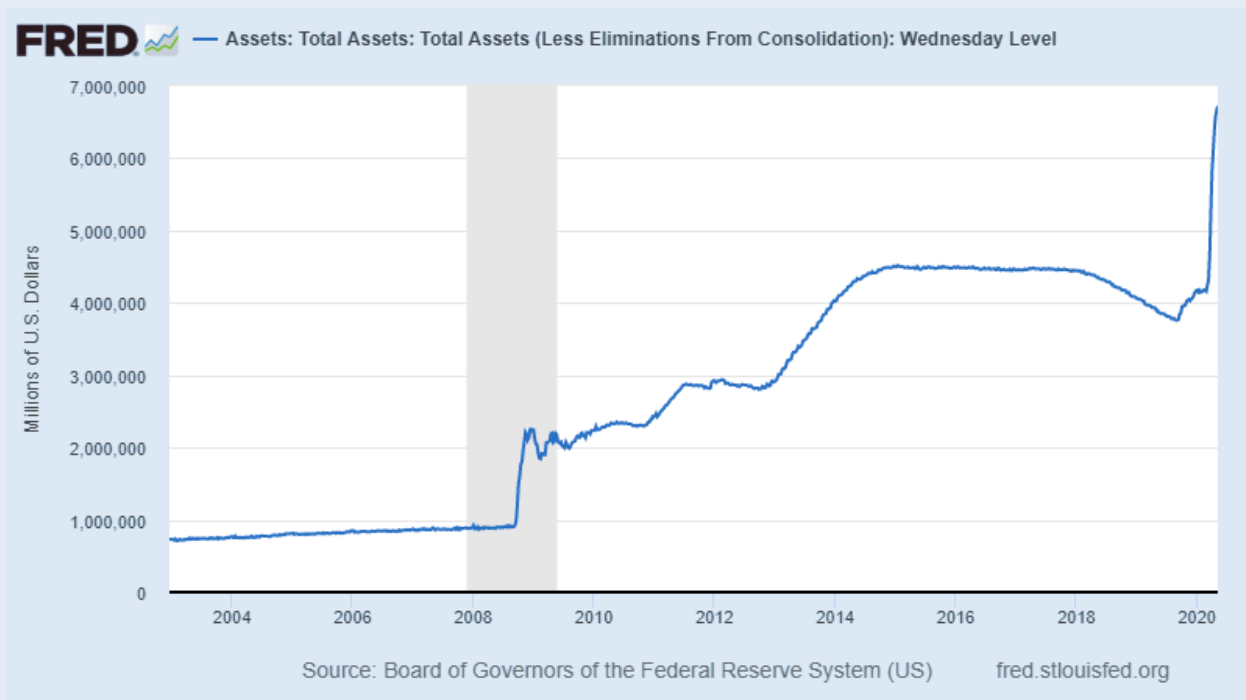
"U.S. oil benchmark West Texas Intermediate jumped on Monday, one day ahead of the contract's expiration date. The contract for June delivery gained \$2.78, or 9.45%, to trade at \$32.21 per barrel. International benchmark Brent crude jumped 6.4% to \$34.58 per barrel. Each contract is coming off its third straight week of gains, as production cuts as well as an uptick in demand have supported prices."⁷

So, all of this taken together is seemingly a sure sign that we can see the light at the end of tunnel—and indeed perhaps we are reaching the end of the tunnel in terms of the virus and its immediate aftermath.

BUT...We are just not sure that all of the current stock market optimism properly reflects the longer-term damage that has been done, and that perhaps is yet to occur.

The virus panic did not really ensue until late February, so first quarter results are likely not as bad as second quarter results will likely be, which come out in August. Several companies may never reopen, and millions of Americans may be stranded without a job, without health insurance, and be forced to eat into their retirement seed money. They may never recover.

But fear not! The government is here to help us, whether we want it or not. And it doesn't matter if they collapse our currency to do it.



The chart above represents the amount of money that has been artificially created by the Fed. This does not include the additional \$3 trillion that is now being contemplated by the Senate, after having already passed the House.

So, by the time we are done with all these "stimulus" packages, we will have created at least \$9 trillion in the last ten years.

The Fed has been propping up our economy since 2008 with its ultra-low interest rates and easy money, and we barely had time for a breather (you can see the asset levels begin to decline only after 2018), and then BAM!

Interest rates back down to near zero, and seemingly endless monetary creation.

Honestly, I do not know how this is going to play out for us in the long term – fiscally speaking I mean – but if history is any guide, we are condemning the next generations to serfdom. I expect that this pandemic will inspire calls to eliminate paper money – which will

put the global elitist bankers right where they want to be – in ultimate control of everyone's digital money, which is not possible to withdraw or hide in a safe, and to which can be charged negative interest rates and the "mark-down," which is what happened in Cyprus back in 2013. The European Union simply confiscated billions of Euros right out of people's accounts.⁸ Boom!

Everything I have talked about here barely scratches the surface of all the moving variables that seem to blink in and out of existence like quarks. Nonetheless, the image that seems to be emerging is that in the short run, perhaps the next six months or so, there will be some good news regarding the virus and vaccines and whatnot, followed by some more bad about the economy in the third quarter.

The question will be what happens after that? How will 2021 shape up? As a massive bull market or a lingering recession? I believe, and would like to believe, it will be the former.

Regardless of how 2020 or 2021 turns out though, I feel very strongly that in the longer term the economy will recover, and we will look back at this time as an exceptional investing opportunity.

As always, if you have any questions or concerns, please do not hesitate to reach out.

Stay well. Stay safe. Stay sane.

My very best to you and your family; and kiss your Grandmas if you got 'em.

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¹ <https://www.reuters.com/article/us-jc-penney-bankruptcy/j-c-penney-to-permanently-shut-about-242-stores-as-part-of-bankruptcy-plan-idUSKBN22U2EK?il=0>

² <https://www.nbcnews.com/business/consumer/which-major-retail-companies-have-filed-bankruptcy-coronavirus-pandemic-hit-n1207866>

³ <https://www.reuters.com/article/us-health-coronavirus-retail-rents-idUSKBN22N0IV>

⁴ <https://www.spglobal.com/marketintelligence/en/news-insights/latest-news-headlines/s-p-downgrades-hit-nearly-200-consumer-companies-during-coronavirus-outbreak-57948027>

⁵ <https://www.cnbc.com/2020/05/18/stock-market-today-live.html>

⁶ <https://www.cnbc.com/2020/05/18/stock-market-today-live.html>

⁷ <https://www.cnbc.com/2020/05/18/stock-market-today-live.html>

⁸ <https://www.theguardian.com/world/2013/mar/25/cyprus-bailout-deal-eu-closes-bank>

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Kevin Meaders graduated from Oglethorpe University in Atlanta with a double B.A. in Philosophy and Political Science, and then obtained a law degree from Georgia State University College of Law, focusing on estate planning and trust law. He has earned the designations of Certified Financial Planner (CFP®), Chartered Financial Consultant (ChFC) and Chartered Life Underwriter (CLU). He holds a General Securities Principal and Registered Representative registration and Investment Advisor Representative registration through Voya Financial Advisors (member SIPC).

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