

March 9, 2020

Dear client,

A Special Note

On Sunday evening, I read that the Saudis and Russians couldn't agree on a price fix for oil within and out of OPEC. This action started an oil price war with the Saudis and Russians vowing to increase production and drastically reduce prices. This race to the bottom is in part to cause pain for the U.S. shale oil drillers in a vain attempt to drive them out of business. You can always count on our friends to help us out in a time of crisis. I can't see how the Saudis will be able to tolerate such low oil prices when their cost of pumping is approximately \$50 per barrel. Putin has amassed a \$150 billion war chest, so he has some maneuvering room but, I suspect Russia got into the oil price war to get even with the Saudis and the United States. Putin is all about world disorder.

Looking at the Dow Jones futures last night, I knew that the global stock markets would be considerably down in the morning. People are panicking, selling whatever and whenever, without giving rhyme or reason. To me this is downright foolish. The situation now is scary, I will grant you that, but it is nowhere like it was in 2008-2009 when the banking system was on the verge of collapse. The U.S. banking system is in good shape in contrast to the Great Financial Recession (GFR) when the market started to crumble starting in October 2008 and lasting until March 2009. This was a period of 5 months of pain. However, the market started a quick recovery after that. We believe this time will not be any different.

Looking at today's market action was laughable for me, not because of the coronavirus or even the oil stumble. I can fully understand those. What I don't get is the underlying panic of it all. For example, defensive stocks like utilities, drug and health care, water companies, defense contractors, and telephone companies got unnecessarily beat up. Does anyone really think that less electricity will be used or consumers will lighten up on their statins? However, as a precaution, because people generally follow herd behavior, we reduced our equity exposure by approximately 5% to 6%. We are not panicking, and we are not selling much, but we took some risk off the table in order to be smart.

We are comfortable at this moment with the current equity to bond to gold mix. Of course, that may change. One client called me early this morning to ask if we should dive in and buy some stocks. I would have like to tell him YES, but the oil dynamics have challenged my assumptions about bottom fishing at this time. I think there will be a time (in the next month or so) that we can once again raise the equity allocations, but for now, let's wait and watch. No major selling, but no major buying either. Nibble here and there.

If you have any questions, please feel free to call me. I am available to you at any time.

All the best,

Steven Yamshon
Investment Counsel

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