March 2020
Continued Descent of the Stock Market

The Latest Update

Since last month's *Market and Portfolio Update* on the Coronavirus, the World Health Organization (WHO) declared COVID-19 a pandemic as the virus spreads further around the globe. Investor fear also spread worldwide, with the domestic S&P 500 Index dropping nearly 20% from it's February highs; entering bear market territory as of this writing. A closely watched measure of turbulence in U.S. stocks, the CBOE Volatility Index (the "fear index"), is near its highest level in a year. Contributing to volatility was a recent dramatic drop in crude oil prices as Saudi Arabia unveiled plans to ramp up its production levels even further only days after it instigated a price war with Russia after discussions broke down. This event especially spooked investors in energy holdings as well as markets at large.

On Monday—as investors sold off equities and raced for the safety of government bonds—the yield on widely-watched 10-year U.S. Treasury note tumbled to a intraday record low near 0.4%, resulting in rising prices. The 10-year Treasury yield has since rebounded some but still shows investor fear. Another safe-haven investment—gold and other precious metals—have also had investor inflows and higher prices.

As mentioned in the last *Market and Portfolio Update*, while we think the COVD-19 virus is a serious pandemic, the fear it's caused is mainly media and politically driven as morbidity seems in line with normal seasonal flu viruses, and primarily affects the elderly and health-compromised population. Health professionals have been in coordination worldwide to stem the disease as best as possible. Nevertheless, the panic created will have a negative impact on the global economy in the near term as manufacturing supply chains, travel, leisure and hospitality, banking the energy sectors, and overall consumer and corporate spending are affected. The Federal Reserve cut interest rates to facilitate borrowing in response, but it's only a bandaide. The Trump Administration and Congress are discussing emergency stimulus measures, which may help but will largely be politically driven in this presidential election year.

SFC TIS Portfolio Positioning

Fortunately, at year-end we already lowered SFC TIS client portfolio risk by decreasing foreign holdings (mainly emerging markets), increased our high-quality core bond holdings and, most importantly, took some equity gains off the table by rebalancing client accounts after a very profitable 2019. As such, portfolios have performed better than our peers thus far in 2020 (especially our higher-risk portfolios). Also, our alternative investments, which mainly "hedged" downside risk, have lowered account losses. And our precious metals holding (mainly in gold and silver) have added to gains year to date. Although this all may be of little solace after a sudden and deep drop in the stock market of late, having taken defensive measures before this event has offered some protection for our advisors' clients accounts.

Moving forward, given the high chance that the COVD-19 virus (and now very low oil prices) will possibly have a negative effect on the economy and GDP over the next two quarters (and thus placing stock prices under further pressure), we are taking more risk off the table by lowering U.S. mid- and small-cap holdings. These stocks tend to underperform stronger-capitalized large company stocks during a market decline. The proceeds will be invested in our conservative ultra short-term bond fund (with an approximate 2% dividend) ready for re-investing in stocks when the dust clears.

Conclusion

While our outlook has become slightly more pessimistic recently, being conservatively positioned in well-diversified portfolios going into this stock market selloff has helped reduce client account losses. Slightly lowering our stock holdings recently (selling partial smaller-cap investments) will protect accounts further. Selling even more or all stock holdings at this time, with the market already near bear territory, makes little sense as most of the damage has likely been done. And, if we sold all stock investments now, we don't have a crystal ball to time the market lows to reinvest back into stocks.

Investment advice offered through Strategic Financial Concepts, LLC, a Registered Investment Advisor.

So our advice is to sit tight and know that this too will pass, as it has in the past. Be assured that we are watching events closely and have the best industry resources available to make informed investment management decisions on your behalf. We will continue to communicate with you as events and our investment portfolio positioning changes. As always, reach out to us and your financial advisor for any questions or comments. In the meantime, we advise that you proceed with your life within the guidelines of health professionals, and remain confident that in the long run you, our corporations and our nation are resilient enough to not only survive but prosper.

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