25 NORTH MARKET STREET, SUITE 223
JACKSONVILLE, FL 32202
904-674-3353

SALVUS
WEALTH MANAGEMENT

1040 BROAD STREET, SUITE 203
SHREWSBURY, NJ 07702
732-542-2629

April 13, 2020

"The stock market is a device for transferring money from the impatient to the patient."
– Warren Buffett

Dear Clients and Friends,

It seems like only a hazy memory now, but the S&P 500 returned 31.5% in 2019 and had a positive return of over 5% through the third week of February this year. Then the bottom dropped out of the markets and we saw a jaw-dropping decline of 23.5% from February 20, 2020 through March 31, 2020, creating a negative return of (19.6%) for the quarter. Yes, it has been stunning, frightening and disheartening and more as our world grapples with this terrible virus. Now we find ourselves in the midst of this strange existence of social distance, self-quarantine and a voluntarily closed economy.

As we write to you now in the middle of April, we are beginning to see some positive signs regarding the slowing of the Coronavirus and thoughts about reopening our economy again. It seems that the markets have also taken notice, as the S&P 500 was up over 12% last week which was its best weekly performance since 1974. We are cautiously optimistic like so many, but we do not believe that there is any benefit in speculating about the next short-term movements of the markets.

We will not waste your time here trying to discuss various aspects of the virus and how and when it may be managed, treated and eradicated. Nor will try to explain the effects of this dreaded virus on our economy in terms of job losses, unemployment rates and declines in GDP. All of this would simply be speculation on our part and we are certain there are many opinions that are readily available from those who are trained experts in these areas. What comes next is simply unknowable at this point in time.

Instead, we write to you today about what we do know and understand. We know that there is a difference between a temporary decline in market values versus a permanent loss of capital. Outside of cash and some short-term bonds, most every asset has declined in value over the last month. Some more sharply than others, but most stocks are down significantly from just a few weeks ago.

We cannot suggest that some level of decline in stocks and other investments is unwarranted given the uncertainty of our economic downturn and recovery. Of course, some of the key questions are how much of a market decline is appropriate and when will the recovery begin? Although the timing is difficult to gauge, we do believe that asset values will recover and could snap back rather quickly when our lives begin to return to some normalcy.

It is sometimes easy to forget that the "stock market" is simply a trading bazaar where securities are offered for purchase and sale. Buyers of securities offer a price to the seller (owner of the security) who can decide whether or not they believe the price being offered is fair. Except under some extreme circumstance, they are under no obligation to accept the price and instead they can wait for a better price if they so choose.

Because of the Coronavirus, buyers of stocks are offering sellers prices that are significantly lower than they were just weeks ago. Unless forced for some reason to do so, why would an owner sell at these greatly reduced prices? As Warren Buffett's words at the top of this letter pointed out, the stock market can quickly transfer value from one inpatient investor to one with greater patience. Perhaps, a quick real estate analogy would be helpful: If your neighbor suddenly sold their house at a 30% discount to current market value, would you say:

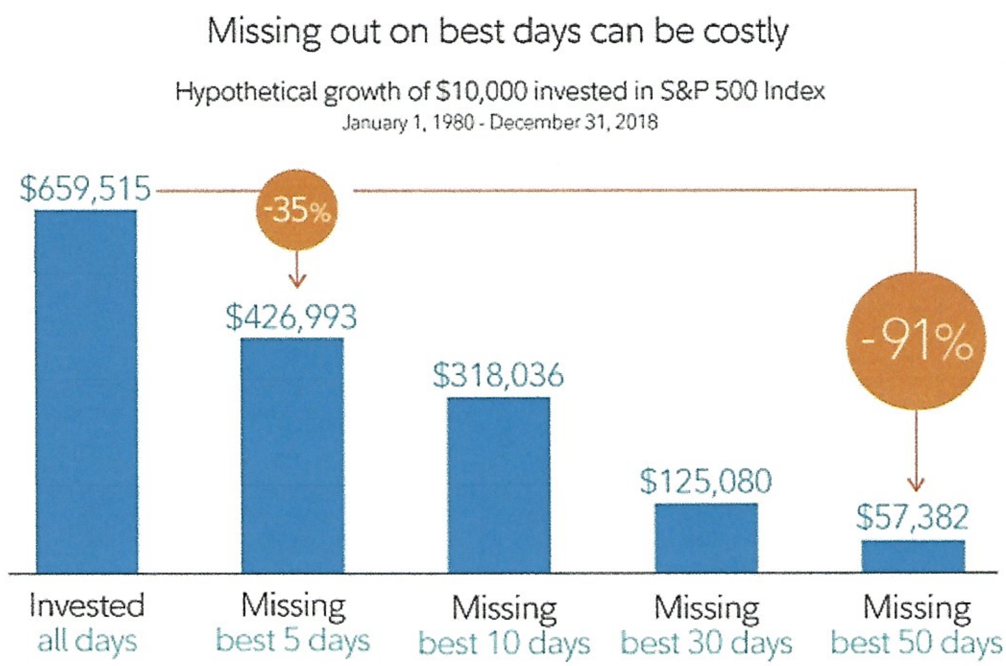
A. "Wow, let's hurry and quickly sell our house at this bargain price" or
B. "They are crazy. Why would we sell our house at this ridiculous price if we have no reason to sell for several years?"

Perhaps a bit of a silly analogy, but it is interesting how we occasionally view stock portfolios much differently than other assets that we own. Patience and discipline can help an investor withstand a temporary market decline and stay focused on their long-term objectives.

We know that the natural reaction to this uncertainty and extreme volatility is to contemplate selling all or a portion of their portfolio. This is particularly understandable given the unprecedented environment where we currently find ourselves. Watching portfolio values decline almost daily is painful and the fear of the unknown is potentially worse. Although our opinion could change in the future, we do not believe that this is the best course of action. In fact, we believe it to be the wrong reaction.

Please know that we are in no way attempting to speculate upon the course and timing of the virus or estimate any damage to our economy, however, we do see signs that the effects of our country's containment and mitigation efforts are having positive impacts and talk of restarting the economy have already begun. We should not lose sight that our economy was in very good shape just a few weeks ago. Perhaps there is now some light beginning to show at the end of the tunnel.

We have written about this several times in the past and suffice it to say that we think trying to "time the markets" is nearly impossible. Given that our markets and economy were in such good shape, we expect that the potential ability of the markets to snap back quickly is excellent. History has shown that being out of the markets and on the sidelines can be extremely costly and cause investors to miss dramatic returns. Fidelity Investments recently studied this idea and put forth the following chart:



FMR Co. Asset Allocation Research Team, as of January 1, 2019. The hypothetical example assumes an investment that tracks the returns of the S&P 500® Index and includes dividend reinvestment but does not reflect the impact of taxes, which would lower these figures. There is volatility in the market, and a sale at any point in time could result in a gain or loss. Your own investing experience will differ, including the possibility of loss. You cannot invest directly in an index.

It is stunning that over a nearly 40 year period of time, missing only five days of market returns could make a 35% difference in value and ten days could make a 52% difference in value. Knowing which days to be in or out of the market is impossible and it can lead to substantially different outcomes. This is one of the primary reasons that investors end up hurting themselves by selling at the wrong times and missing out on substantial returns that can occur in a very short period of time.

We believe that the best protection from these volatile markets is not selling and trying to time the markets, but to make certain that our clients have sufficient cash available for their personal cash flow needs. With enough cash and/or current income, our clients do not need to sell any securities and accept these current low ball prices. Instead, they can remain focused on their long-term goals and objectives and allow the markets time to recover. There is an old saying about the markets that we think is very accurate: "It is time in the market, not timing the market." We completely agree.

Please remember that we are here for you and your families and happy to assist you in any way that we can during these turbulent time. As always, we thank you for your continued support and confidence and we look forward to writing to you next in the summer, when we hope that we are all back to our normal lives once again. Meanwhile, please feel free to contact us anytime with questions or comments.

Best regards,

Bob

Robert W. Joel, CFP
Chief Investment Officer

Chuck

Charles T. Woolston, CPA
Chief Executive Officer