Perspectives Newsletter

Quarterly Newsletter I Quarter Ending March 31, 2020

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Market Recap

Charles Dickens, author of A Tale of Two Cities, opened the book with a sentence that became an instant classic: 'It was the best of times; it was the worst of times…". That could certainly describe the first quarter of this year as far as U.S. stock markets[1] were concerned.

After reaching a new all-time high on February 19th, the S&P 500 fell 34.1% between then and March 23rd, setting a record for the fastest descent into bear market territory in history. Then, the market embarked on a classic bear market (or relief) rally, rising 17.1% over the next three days. Another record. As Dickens said, "the best of times and the worst of times" - but all in 35 days! We have never seen anything like it.

During part of the stock market drop, we also saw commodities, bonds and cash markets nearly freeze up and values drop. That is not the way it is supposed to work; bonds are supposed to rise in value when stocks fall – especially when interest rates are falling. Gold is supposed to be a hedge against this type of stock market freefall.

However, in the heat of a crisis, these assets sometimes don't perform the way one would think, because when no one knows what is going on, everything goes up for sale for a time, until the news is somewhat sorted out. That is what happened in March, and though it did not feel very good, it was not unexpected. We saw this happen in 2008 when our financial markets were in danger of collapsing, and again in 2011 when the Eurozone suffered a near financial collapse.

The first quarter of 2020 was certainly one to remember, however, we are convinced the setback will be temporary. See our outlook for the future, and what we are doing regarding portfolio management, in the next two sections of this report.

- **Patrick Powers, CFA®, CPA, CFP®**

Forecast

My oh my, how the world has changed! We have just experienced the fastest fall from a bull market into a bear market in history. The good news is that we had a nice rally the week before last, the best week since the 2008 financial crisis, to relieve some of the pressure. The bad news is that we may once again test the lows that we put in a couple of weeks ago. However, we believe the stock market will then embark upon a rally that will be powerful and sustainable through year-end and next year, with the help of unprecedented global monetary and fiscal stimulus.

As of this writing, the S&P 500 is at 2475. Goldman Sachs is projecting a rise to 3200 by year-end[2] – a 29% increase from current levels. We will see about that, but we certainly believe that stock markets will be meaningfully higher at year-end than they are right now. We also expect a good year in 2021, as we fully adjust to a new normal.

What will our new normal look like? Well, we can look at China to get a glimpse through that window. China's lockdown is now over. People are back to work; traffic congestion is starting to return; parks are filled with people; and offices, factories, and stores are re-opening. Manufacturing is expanding (albeit off of a suddenly low base) and the economy is in the process of normalizing.

However, the reality of the situation is that there is a "new normal" in one's everyday life. In China, everyone has been asked to wear a mask when outside of the home – to protect themselves and others. Masks and bandanas may fast become our new fashion accessory. Their "normal" is getting their temperature taken when entering office buildings and stores. There are hand sanitizer stations everywhere and they are being used (you have seen these in our hospital lobbies). Restaurants are open, but they are using every other table right now to maintain social distancing.

This will be us for perhaps the next year and a half – until an effective vaccine is widely available. But, how fast a year goes by these days. We can and will handle this "new normal".

Finally, we are forecasting a golden era for medical science and healthcare, as a result of this crisis. We experienced the same thing after the Spanish Flu in 1918. We believe innovation in pharmaceutical, medical device and healthcare companies is going to explode. Our amazing, creative energy and problem-solving expertise will be brought to bear on the issues we face currently. We will figure out a way to provide necessary healthcare to all, without destroying our innovative, private system. Many fruits will result from this crisis.

- **Patrick Powers, CFA®, CPA, CFP®**

Portfolio Management

We very rarely and very reluctantly take money off the table, i.e., reduce our targeted allocations to an asset class, because we believe in the value of diversified portfolios, and we know from experience how very hard it is to "time" markets. Nevertheless, protecting our clients' portfolios from severe declines in value - from which recovery in a reasonable amount of time will be difficult – has to be our overriding concern and objective.

The first quarter of this year was one of those times. We started reducing equity exposure in a meaningful way on February 28th for most clients and continued to reduce exposure through March. As a result of these moves and due to our diversification, our portfolio declines were nowhere near those indicated by the S&P 500. We have built up substantial cash balances in most portfolios.[3] In our opinion, the first half of this game has been well played.

However, the game is not yet over, and we must have a good second half. That means we have to be prepared to get back into the stock market at the right time and fully participate in the expected rebound. That is easier said than done, as no one can reliably predict stock market bottoms. Nevertheless, there are several signs we can look for (based upon our decades of investing experience) and we will vigilantly look for the right opportunities to put money back to work.

We have a plan to put money back to work in stages, and we will do so. We will not get it done perfectly, however, we don't need to be perfect. We just need to be "cool, calm and collected" (you may remember the old deodorant commercial!), and we will do the best job we can to capture what the market offers us in terms of a sustainable rally.

I have to say, I could not have a better team to work with during this challenging time. They are all true professionals with uncommon dedication to the cause. We are all working from home and expect to do so through April. However, we have not missed a beat, except for missing being with each other. Please join me in saying "thank you" to our BFSG team.

- **Patrick Powers, CFA®, CPA, CFP®**

News Flash

With the ability to receive information 24/7, it can be overwhelming to be bombarded by the media's constant "worst case scenario" coverage of the current world events. With any situation, one can always go back to the old adage of how you look at your glass. We at BFSG prefer to view "Our Glass as Half Full". This simple expression and choice of viewpoint can certainly influence our daily lives at this time. So we'd like to share with you news articles that remind us to exhale and remember… Your Glass is Half Full!

Extraordinary challenges brought about extraordinary opportunities for Sir Isaac Newton. Click here to ready the story.

Coronavirus lockdown is saving lives by reducing pollution. Click here and here to read various stories.

Remote work will now be a tool in the toolbox for businesses. Click here to ready the story.

In a time of darkness, be a source of light. If you are a parent, click here to learn how you can teach kids about compassion.

The crisis itself is not the most important thing, it is how we respond. Click here to read 50 ways companies are giving back during the crisis.

Nintendo's *Animal Crossing*: *New Horizons* is the perfect game for this moment in time, in that it's allowing us to unwind in a sunny, blissful outdoor environment while trapped indoors. Click here to see how people are virtually connecting to those that are close to them.

- **Michael Allbee, CFP®**

The Score Board

	3/31/2020	YTD Change
Dow Jones Industrial Average	21,917.16	-23.20%
S&P 500*	2,584.59	-20.00%
NASDAQ Composite*	7,700.10	-14.18%
MSCI EAFE (USD)*	1,559.59	-23.43%
Bloomberg Commodity Index	61.86	-23.53%
Barclays Aggregate Bond Index	2,295.05	3.15%
10 Yr U.S. Treasury Bond Yield	0.70%	-122 bps
30 Yr Fixed Mortgage Rate	3.74%	-28 bps
Prime Rate	3.25%	-150 bps
Crude Oil ($ / Barrel)	$20.24	-66.85%
Gold ($ / Oz.)	$1,592.40	4.80%
Euro € / U.S. $	$1.10	-1.79%
Core Inflation (excluding food / energy)		2.40%**
Inflation (including food / energy)		2.30%**

**Without Dividends*

***Unadjusted 12-Months ended February 2020*

bps (1 Basis Point = 1/100%)

UNCH (Unchanged)

Sources for Score Board and quoted statistics:

WSJ, US Dept. of Labor, Federal Reserve

Footnotes:

1. The S&P 500 is designed to be a leading indicator of US equities and is commonly used as a proxy for the U.S. stock market. Total return quoted.
2. Goldman Sachs, "US Weekly Kickstart", March 13, 2020
3. Each account will vary due to different client investment objectives and strategies. We carefully manage your account based on your investment objective.

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