



Economic Summary

The Coronavirus tragedy has left no person unaffected by its incredible suffering and loss of lives. It's easy to be consumed with negativity, but we are trying to remain optimistic, as the government and private sector response has been somewhat effective. The U.S. Government is utilizing both monetary and fiscal policy to a capacity never seen before. Washington passed the largest economic stimulus package in history, providing \$2.2 trillion to help businesses and individuals, and they stand at the ready to stimulate more. The Federal Reserve has cut short-term interest rates to zero and has implemented its largest and most comprehensive asset purchasing program ever. Modern medicine and human ingenuity will likely help save many lives and eventually find a vaccine. Humanity has pulled out all the stops to defeat the Coronavirus, and we shall prevail.

Some doomsayers are forecasting a depression. In her seminal book on the Great Depression, *The Forgotten Man*, Amity Schlaes argued persuasively that Roosevelt's willingness to capriciously experiment with economic policy probably did more to lengthen the depression than to halt it. To review, in the 1930's,

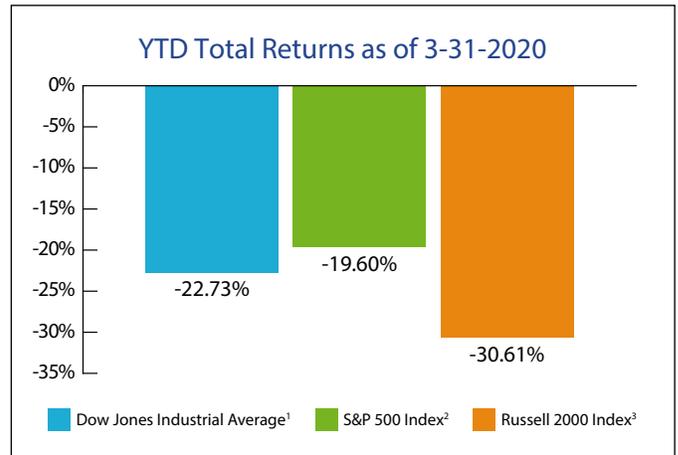


Chart 1

SOURCE: MORNINGSTAR DIRECT

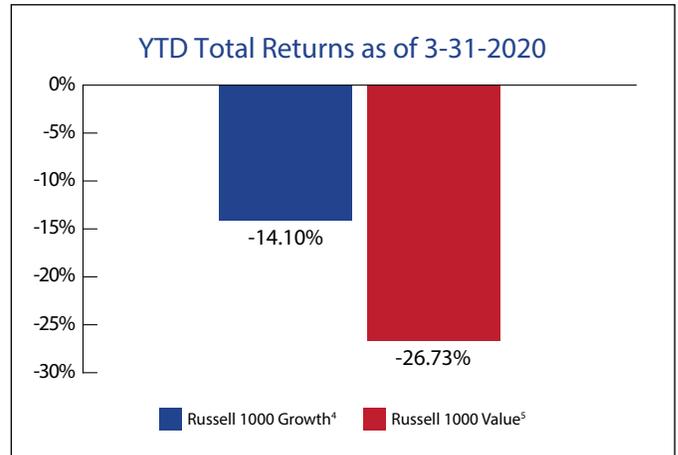


Chart 2

SOURCE: MORNINGSTAR DIRECT

Past performance does not guarantee future results. You cannot invest directly in an index.

¹ The Dow Jones Industrial Average is a price-weighted average of 30 significant stocks traded on the New York Stock Exchange and the NASDAQ.

² The S&P 500® Index is a capitalization weighted unmanaged index of 500 widely traded stocks, created by Standard & Poor's. The index is considered to represent the performance of the stock market in general.

³ The Russell 2000® Index is an unmanaged index of the smallest 2,000 stocks in the Russell 3000® Index.

⁴ The Russell 1000® Growth Index measures the performance of the large-cap growth segment of the U.S. equity universe. It includes those Russell 1000® companies with higher price-to-book ratios and higher forecasted growth values.

⁵ The Russell 1000® Value Index Measures the performance of the large-cap value segment of the U.S. equity universe. It includes those Russell 1000® companies with lower price-to-book ratios and lower expected growth values.

1. the Fed **tightened** monetary conditions, 2. income taxes were **increased** on corporations and individuals, and 3. federal government regulations **increased** meaningfully. That was three for three, as far as policy mistakes are concerned. These errors greatly increased the length of that economic contraction. Today's monetary and fiscal policymakers are obviously not making those mistakes of the 1930's.

The Stock Market

The first quarter of 2020 was one of the worst in the post WWII economy, with major indexes down over 20%, and value and small-cap stocks taking the brunt of the selling pressure (CHARTS 1 AND 2). The largest drag on performance in value indices was the overweight allocation to financials and energy, down 31.9% and 50.5%, respectively. The growth indices were overweight technology stocks and had the strongest relative performance against all other sectors, down 11.9% during the quarter.

Historically, large stock selloffs as recently experienced have presented buying opportunities for serious long-term investors. Remember that short-term fluctuations are meaningless. Chart 3 shows just how costly it can be if an investor is out of the market for just a few of the best-performing days. Had an investor missed just five of the best days in the last 25 years, he would have realized an annualized return of 5.2%, or 26.8% less than if he had been fully invested – astonishing. Additionally, insider buying is at levels not seen since 2008-2009.

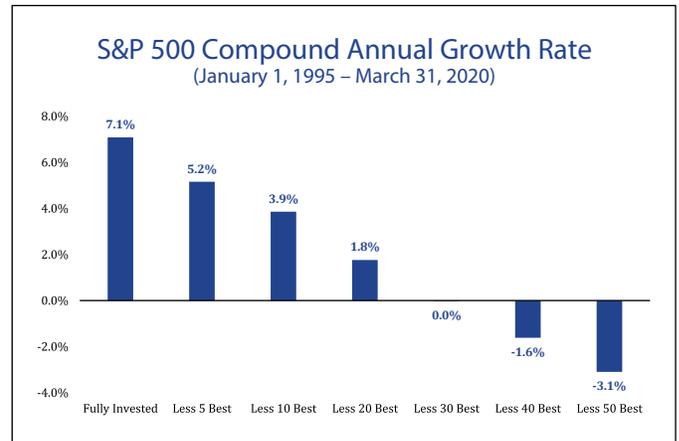


Chart 3

SOURCE: STRATEGAS RESEARCH PARTNERS
 "QUARTERLY REVIEW IN CHARTS" – APRIL 3, 2020

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The Bond Market

Corporate bonds sold off during the quarter and sent credit spreads to their highest level since the last recession. Companies with exceptional balance sheets and strong business models were tossed out, as investors ran for cover in cash and U.S. Treasuries. In fact, the demand was so great for short-term U.S. Treasuries that some issues traded with a negative yield-to-maturity. We do, in fact, live in very interesting times.

As previously stated, we remain optimistic. Long-term investors have always been rewarded by taking advantage of buying opportunities when others are fearful. And although this pandemic is horrendous, never underestimate the power of prayer.

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