1st Quarter 2020 Report
April 2020

SAM NEWS

COVID-19 Calamity

Stocks suffer fastest bear market decline in history; give up all gains since the 2016 election. The global economy is temporarily paralyzed.

It may be hard to believe, but the broad U.S. stock market set record all-time highs during the quarter on February 19th, prior to precipitously declining more than 30% over several weeks as fears of the global economic impact from the coronavirus rose. The DOW 30 set a new record for the largest ever 1st quarter percentage decline and had its worst month since October, 2008. During the quarter, we witnessed the largest single day point decline (2,997 points) for the Dow Jones Industrial Average on 3/16 and the largest single day point gain on 3/24 (2,112 points). As of this writing, market volatility and uncertainty surrounding the virus continue to dominate the news headlines.

The one certainty of investing is that your portfolio will experience volatility. Further, volatility can trigger emotional responses that may cause investors to make irrational decisions that could lead to missed opportunities. Prudent investors stay the course, with the understanding that investment success is not just a matter of how well you do in up markets but also how well you weather the downside. We are here to guide you and your portfolios through this difficult time. See Sam Outlook and SAM Strategy, below.

1st Quarter 2020 INVESTMENT REPORT

Stocks across the globe experienced large synchronized declines as the fear of the economic impact of the coronavirus set in. U.S. stocks, as measured by the broad S&P 500 declined 19.6%. The tech heavy Nasdaq Composite lost 14.2% and small company stocks as represented by the Russell 2000 suffered the largest losses of 30.6%. The DOW 30 declined 22.7% for the quarter, led by losses in Boeing. International stocks (MSCI EAFE) performed slightly worse than the S&P 500 losing 23.4% for the quarter. The Barclays Capital Aggregate Bond Index registered a small gain of just 3.1% even as the Federal Reserve reduced interest rates to 0% in response to the pandemic. Oil prices cratered during the quarter ending at $20 per barrel- the lowest since 2002.

INVESTMENT INDICES

All numbers listed are total returns (including dividends) and are percentage gains or losses. The ten year returns are annualized.

	1st Qtr.	2019	10-Year
Dow 30	-22.7%	22.3%	10.0%
S&P 500	-19.6%	31.5%	10.5%
Nasdaq Composite	-14.2%	35.2%	12.4%
Russell 2000	-30.6%	25.5%	6.9%
MSCI EAFE (Int'l stocks)	-25.4%	18.4%	-0.2%
Barclays Capital Aggregate (Bonds)	3.1%	8.7%	3.9%

Time to Fund Retirement Plans For Tax Year 2019

In general, most retirement plans must be funded by July 15th this year (extended from April 15th due to the COVID-19 pandemic) to be considered for the 2019 tax year. This applies to traditional IRAs, ROTH IRAs, SEP IRAs, SIMPLE IRAs, and most formal retirement plans. If you have not funded your retirement account for 2019 and are still planning on making a contribution, it should be made as soon as possible. <u>You may also want to consider funding for tax year 2020 now while the market is down</u>. If you have questions about how to make your contribution, please contact our office toll-free at 877-658-5193 and we will be glad to assist you.

2nd Quarter Holidays

Good Friday, April 10th
Memorial Day, May 25th
Independence Day(observed), July 3rd

SAM Outlook and Strategy on the following pages.

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SAM OUTLOOK

U.S. economic data through late February remained solid, but that will be the last data that does not reflect the impact of the coronavirus. Ultimately fear, panic and virus countermeasures will determine the scope and length of the economic damage and resulting recession. Given increased efforts to contain the spread of the coronavirus, we anticipate a very sharp (but we hope short) contraction in the U.S. economy, which likely already entered a recession in March. The coming months are likely to witness a profound fall-off in the real economy (GDP). The upside is that the economic damage from the coronavirus is not likely to be a long-term recurring economic risk like a tariff war or mounting protectionism.

Real GDP is likely to contract in the coming quarter by 15-20% on an annualized basis. This would mark the deepest quarterly decline since at least the 1950s. This will be a trying time for all of us as Americans, and certainly for the U.S. economy. We expect, however, that this could also turn out to be among the shortest recessions in our nation's history. Importantly, we assume that the need to significantly restrain activity, such as the closure of non-essential businesses, will dissipate by late in the second quarter. Under such a scenario, coupled with recent record fiscal and monetary stimulus measures, we would foresee a rebound in growth in the third quarter to mark the end of this sharp, yet short recession.

Based on our assessment of the underlying economy and current valuations, our best guess is that we will look back at the current period of selling as an overreaction. We believe the current selloff should be viewed as a surprisingly fast and sharp correction driven by a medical crisis, rather than a shift in underlying economic fundamentals. A rally in stock prices will ensue at some point (we may have already seen the lows on 3/23), but new highs could be some time away. Investors should be patient, prudent and should not try to time an actual market bottom.

It appears that we are still in the early innings of winning the battle against COVID-19, and the stock market is likely to remain on edge as good and bad (but mostly bad) news floods the airwaves. Investors should remember two things in the coming weeks and months: 1) big market rallies often happen very closely – if not the day after big selloffs. In other words, volatility *works both ways;* and, 2) the market has a long track record of staging its comeback *well before the news gets better and the situation improves*. Throughout history, new bull markets have started when the economy feels like it is still in complete meltdown, so remember that bad news does not necessarily signal that the market is heading for another big decline. Bull markets often start when people least expect it.

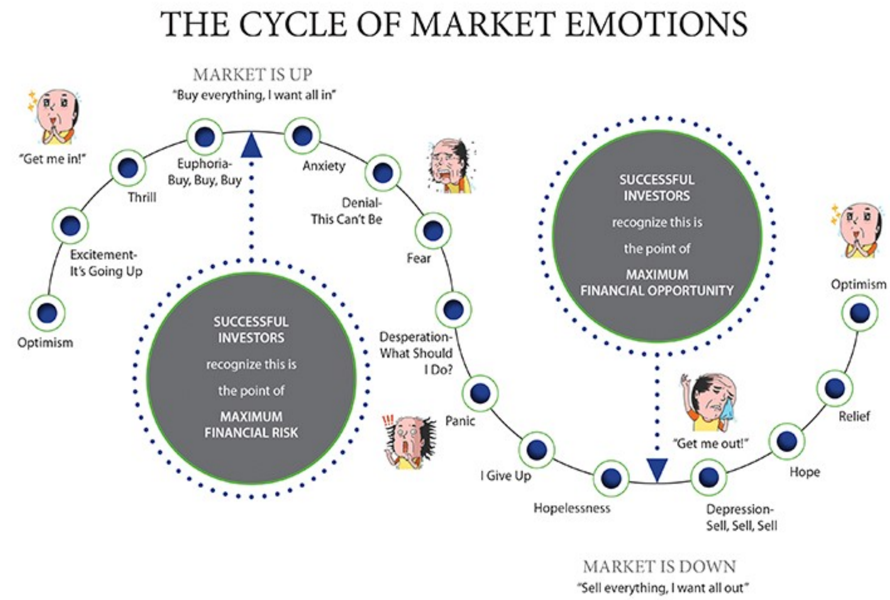
SAM STRATEGY

John Templeton once said that the four most dangerous words in investing are "it's different this time." Anyone who has been investing long enough has seen their share of bear markets. The cause of the market decline is always different (overvalued technology stocks, 9/11, the U.S. financial crisis, government shutdowns, trade wars, viruses, etc.), but the end result is always the same- the stock market eventually recovers and goes on to set new highs. While the recent declines have been dramatic, we believe that our economy will survive the impact from the virus and will recover- maybe even sooner than most people would think.

Market panics play out differently. Sometimes, we see a giant meltdown followed by a quick recovery, such as at the end of 2018 and early 2019. Other times, markets experience long waves of selloffs before stabilizing, such as during the 2008-2009 financial crisis. At this point, it's too early to tell how the current panic and market selloff will play out. The impact on economic growth and corporate earnings is still largely unknown but we would estimate at least two solid quarters of poor earnings.

At the present time, we are not making any major changes to our portfolio allocations. We do have our "shopping list" out and may make some minor changes to purchase individual companies or sectors that we believe will add value to our managed portfolios in the coming market recovery. We will continue to closely monitor the markets, our individual holdings, and most importantly the economic fundamentals. Unless the global economic data meaningfully changes for the worse, we will remain fully invested and stay the course with our time-tested, diversified investment strategy.

What Can You Do Now?



1. **Remain calm and think long term.**

2. **Limit your exposure to the television media- especially the financial news.**

3. **Try to create two distinct lanes in how you're thinking and operating in this public health crisis. In one lane, you have your feelings and actions as they relate to personal health and safety. This is your lane for heightened precautions, safety measures, and so on. In the other lane, maintain a positive, long-term outlook on how the economy and market are likely to stage a full recovery, with asset prices swinging back to new highs in the near to medium term. This mindset is extremely challenging to maintain when it feels like the sky is falling.**

4. **Consider adding new funds to existing investment accounts, including fully funding retirement accounts like IRAs and ROTH IRAs now for the 2020 tax year. History has shown that new money added during severe market declines has experienced higher than average rates of return.**

5. **Increase contributions to company retirement plans now to take advantage of the low stock prices. You can accomplish this by increasing the amount of your pay that you are deferring. This is known as dollar cost averaging- buying additional shares at lower prices.**

Market Timing

During times of stock market volatility, we are often asked by clients if they should "get out" to avoid investment losses. The problem with this is that you must make two right decisions for this to be a wise move- when to "get out" and when to "get back in." In my 20+-year career, I have never seen a client implement this strategy successfully. In my experience, when a client is finally comfortable reinvesting it is always at a higher point in the market from where they directed us to liquidate. In almost all cases, we advocate for a buy and hold oriented strategy because market timing has been proven highly unsuccessful over time. When market volatility occurs, we encourage our clients to stay calm, stay in, and stay the course.

Consider this- in any given calendar year, the average drawdown (peak to trough decline) of the S&P 500 Index has been nearly 14%. Since 1980, the S&P 500 Index has delivered positive annual returns 82% of the time. For 1-year holding periods, stocks have been positive 73% of the time, for 10-year holding periods stocks have been positive 95% of the time, and for 20-year periods stocks have been up 100% of the time.

Of note- 24 of the 25 **best** days in the market's history have come within 30 days of the **worst** days in the market's history. That's almost 100% of huge upswings in close proximity to huge downswings, and it serves as a reminder to investors *not to try and time the market.* Missing the big up days can mean compromising your long-term returns. The recent record point declines and rebounds in the DOW 30 over the last few weeks further support this data.

SECURE and CARES Acts Highlights

The ***Setting Every Community Up For Retirement Enhancement (SECURE) Act*** was signed into law on December 20th, 2019 and has some provisions that will affect our clients. This section is not intended to be a complete summary of the legislation, but to provide our clients with highlights of the provisions that most likely apply to them.

Required Minimum Distributions (RMDs)- The beginning age for taking RMDs has risen to age 72. This easing applies to clients who turn 70 ½ after 2019 (born after July 1, 1949).

Traditional IRA Contributions- Owners of traditional IRAs can now make contributions past the age of 70 ½. This applies to contributions made for 2020 and beyond. Generally, you must have earned income to be able to contribute to an IRA. Please check with your CPA to see if you qualify.

Inherited IRAs and Workplace Retirement Accounts- If you inherit an IRA or workplace retirement plan from a non-spouse, these accounts must be fully withdrawn in 10 years instead of the previous distributions which were based on the beneficiary's life expectancy. This applies to beneficiaries who inherit IRAs in 2020 and beyond. Surviving spouses that inherit retirement accounts still maintain the benefit of using their life expectancy to calculate minimum withdrawals.

Adoption/Birth Expenses- The new law allows penalty-free withdrawals from retirement plans for birth or adoption expenses. The $5,000 limit would apply to each parent, including those who have adopted children. So technically, a couple could take out up to $10,000 from their retirement savings, if they both have separate accounts in their own names.

529 Accounts- Funds in 529 accounts can now be used to pay down student loan debt, up to $10,000. In some cases, families have money remaining in their college savings plans after their student graduates. Now, they can use a 529 savings account to pay up to $10,000 in student debt over the course of the student's lifetime. Under the new law, a 529 plan may also be used to pay for certain apprenticeship programs.

The ***Coronavirus Aid, Relief, and Economic Security (CARES) Act*** was enacted on March 27. Along with massive government spending to help ease the economic impact of the virus, there are also a handful of provisions relating to retirement accounts. Two of the most relevant for our clients are the following:

Required Minimum Distributions – One provision of the CARES Act is to suspend RMDs for 2020 in defined contribution plans like 401(k)s, 403(b)s, and IRAs. Anyone who would have had to take an RMD in 2020 can instead choose not to take one and then resume their RMDs in 2021.

Coronavirus Related Distributions – If you are under 59½ and you, your spouse, or your dependents are diagnosed with COVID-19 or suffer financially due to the disease because you were laid off, quarantined, etc., then you may be eligible to take a penalty-free distribution of up to $100,000 from your retirement plan or IRA. You would still owe taxes, but you would avoid the 10% early withdrawal penalty.

Annual Review Appointments

We are not setting any in person appointments for at least the month of April to do our part in slowing the spread of the virus. We have spoken with many clients by phone and have reviewed their performance and addressed specific questions and concerns. We also have the ability to meet via video conference. If we have not yet spoken or met earlier this year and you would like to set an appointment, please call our office toll-free at 877-658-5193 and we will schedule a telephone review or video call with you right away. We appreciate your continued trust and patience during this social distancing period.

SAM Coronavirus Contingency Plan

So far, our office has remained fully open and staffed through the crisis. We have a small staff and are able to keep plenty of physical distance in our office space. We have closed our office to outside visitors and are only scheduling telephone and video conference meetings with clients and new prospects. We are monitoring Federal, state and county ordinances and will comply with any laws that directly affect the occupancy of our building. Our office is already well equipped technologically for working remotely. Our email, primary investment management software, trading systems, and client relationship management software are now all cloud based and we have secure VPN connections in place to our office server. Should we need to operate remotely, our clients would not experience any disruptions in our service.

Our company is steadily growing in large part because of your continued referrals. If you know of someone who could use professional financial guidance, please do not keep us a secret. We sincerely appreciate the continued trust and confidence that you have placed in us.