Morgia Wealth Management Community and Market Update, March 20, 2020

As I write this note at 5:30 am on Friday morning, the stock market futures are currently up about 5%. By the time this gets to your inbox, who knows where the market will be. That sentence summarizes what has been a crazy first three weeks of March. But more on that in a minute.

We are in the midst of a global event that we will all remember forever. An event that has touched every one of us in some way that personalizes it and alters our perspective. As we talk to our clients, we are hearing so many different stories, all of which represent the hardships brought on by this global pandemic. But I am also hearing some very uplifting stories.

While I will miss plenty of people that deserve thanks for their efforts in all of this, I want to share some stories that reflect on our great community and the human spirit at a time of crisis.

- Thank you to our clients and your colleagues in the medical field. You are on the front lines of all of this, putting yourself in harm's way to help and protect so many of us. As I talk with you personally, I keep hearing you say "hey, this is what we do." While you may not give it a second thought, you deserve our thanks.
- Thank you to our teachers and school administrators who are working tirelessly to get food out to those in need. Clearly not what your normal mission is, yet you are working to make it happen. Oh, and at the same time, you are finding a way to help our students continue to learn as they sit home from school.
- Thank you to the Watertown YMCA, who announced they are partnering with the local schools to provide emergency day care for essential workers during this time of need. Staff at our local hospitals can work because they now have a place that will care for their children.
- We are grateful for a local food provider, Agbotic, for continuing to grow food and donate it to local food banks when their restaurant channels stopped ordering. Not only are they providing healthy food, they are keeping their employees working and paid.
- Thank you to our clients, and many others I am sure. I can't tell you how many of you I have spoken to who have mentioned gifts you have made to food banks and other organizations that need our help more than ever!

There are so many great stories that show our community coming together and I felt the need to share a few to break from all the doom and gloom.

In the markets, as we wrote to you last week, we have been in a defensive position through much of the turmoil. It was very helpful for much of this week as the markets have been very volatile. On Monday we witnessed the 2nd worst day in market history, -12.93% for the Dow Jones (Wikipedia). Our clients' stock portfolios were able to avoid about ½ of that drop. However, as the week progressed, the pain in the markets spread to other assets. While I will never really view that as good news, it is a normal function of a market that is trying to find a bottom. A bottom will happen, so I say let's get it over with.

Liquidity was the story of the week. With the market drop, many investors rushed for the exits. Many were also forced out because they had margin loans that demanded either more collateral or a paydown of the loan. This led to a sell-off in almost every asset class. Bonds were sold, gold was sold, publicly traded real estate was down and energy was hit hard.

One of my favorite tweets of the week: "Gas is finally under $2, but I am not allowed to drive anywhere."

The government has been working feverishly on plans to help. The federal reserve has made several moves to provide significant additional liquidity and flexibility in the banking system so that money moves freely. The House and Senate are working on fiscal stimulus plans to get funds to people and businesses that are being impacted by layoffs, shutdowns, and slowdowns of demand. The filing and payment deadline for Federal Taxes has moved to July 15. As these stimuli move into the system, it should help the markets calm down a bit and reduce some of the panic selling that has taken place.

We do not have a crystal ball and will never try to predict a market bottom. It will come and the markets will eventually move back up. The global economy has been damaged but not irreparably. The markets, when functioning normally, will start to move up long before the economy fully heals. Investors will be able to assess the damage and resume normal economic forecasting once the peak of this pandemic passes. We hope this is sooner rather than later.

The markets are moving quickly, and our focus is very much on doing everything we can to protect your investments and your financial goals. We thank you for the trust that you have placed in all of us at Morgia Wealth Management. It is times like this that I am reminded of the great people that I get to work with each day, the employees **and** clients of Morgia Wealth Management.

Stay Healthy,

PJ Banazek

Below are some brief bullet points that summarize what happened in the equity and bond markets this week.

Fixed Income

- The market volatility that has impacted the equity markets over the last three weeks flowed over to the bond markets over the last 7 days. As investors around the world needed cash to cover cash flow or margin loans, they sold the assets that had not yet been hit by the volatility.
- Two weeks ago, bonds were going up in price, gold was going up in price and stocks were falling. Fast forward to this week, and for the most part, if it could be sold by investors for cash it was sold. The price of bonds and gold joined stocks in the sell-off.

- In most cases, this sell-off had little to do with the quality of the bond and probability of getting your funds at maturity. It had everything to do with the "baby being thrown out with the bath water" as investors scrambled to get cash in their portfolios. As a result, there are some interesting opportunities available in the market and we have started to nibble a bit.
- We have long favored owning closed end funds in our bond portfolios. These were not helpful these past 10 days and in some cases it was painful. On a conference call on Thursday with a manager of one of the closed end funds that we own, he was asked about the drop in prices for some of the funds he managed. To paraphrase his response, "some investors are just making nonsensical decisions right now out of pure fear, these portfolios are extremely high quality and have suffered no impairment as suggested by these prices." We have started to add to some of our positions as the valuations on these bonds are approaching the valuations last seen in the 2008 financial crisis.
- There have been some news reports that have generated questions from some of you about the money market funds in your portfolios. The money market funds we use are limited to funds that only own government back securities. We believe that the funds we use are safe and well protected.

Equity Markets:

- The speed of the stock market decline has been unprecedented in modern times. After hitting a high point on February 19th, the S&P 500 dropped 33% over the following 18 days and the Dow fell 36%. Since then (and as of this morning) the markets have been trying to "find a bottom" as they say, bouncing around 20,000 on the Dow. For context, back in 1987, it took 39 days to fall 34% (even though most of the damage then happened on Black Monday with a 20% one day decline).
- The virus containment efforts have, of course, resulted in a slamming-on of the economic breaks for the US and global economies. In fact, it would be closer to the truth to call it "locking up" the economic breaks. When revenues evaporate for corporations both large and small, there is a real concern of a global recession and liquidity driven bankruptcies. The government's plans to step in and help the country get through this period of low cash flow (and no cashflow for industries like airlines and restaurants) is a crucial move.
- During the last real global pandemic, back in 1918, the stock market had already fallen 40% and was rebounding strongly when the main peak of that virus hit. The market dropped 10% or so, sat for three months, and then rallied much higher. These are different economic times however and we can't draw too many inferences – except that the world, the economy, and the markets survived and moved forward.
- We have a very strong defense position in the stock accounts currently. This consists mainly of cash of between 38% and 42%, we also have an approximate 5% gold position in most of the portfolio models.
- This cash was raised prior to and during the initial and mid stages of the drop – we even did a bit more selling around this level a few days ago. We hope that last move turns out to be wrong and that we can eventually start buying back in at some point.
- We will be watching for days when the news is still bad, but the market goes up anyway. At that point we may start some purchasing.

- The “all clear” signal is likely a long way off however, and we will only be looking for a few types of buys:
    - **Upgrades**: With many of the best company stocks having been punished like the rest, we have already started to swap from lesser companies to better companies. Most of our holds are financially strong, any of the lesser names in the portfolio were the ones we swapped out.
    - **Long term holdings**: We have been waiting a long time to buy back into Warren Buffett’s company, Berkshire Hathaway, and had the opportunity to do just that recently in certain portfolios.
    - Anything other than these types of purchases will be on a very short leash. i.e. if the prices fail to hold up, they will be sold.

Note that in addition to our own stock and bond managed accounts, we also employ the talent of various specialist investment advisory firms for our clients and ourselves. Each of these firms employs their own strategies and tactics during events such as this. We have confidence in the management teams and the strategies of each of these firms and will be monitoring them closely.

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