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Money Talks

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Market Comment

By the time you read this, we are hopeful that the present concerns for the health and safety of our society will be taking a turn for the better. At the moment, however, the health scare that began in China has gripped many parts of the world, including the U.S. The situation is evolving rapidly with many affected communities taking cautionary steps to limit infection.

First, the well-being of those who are most at risk remains the top concern and all protocols should be heeded. Fortunately, public health officials and state administrators are being proactive and are working diligently to contain the situation by providing daily updates and announcing measures that should help mitigate the spread.

While arresting the humanitarian toll is the primary task, it is also important to understand the economic ramifications. The truth is nobody really knows how this will affect the global economy. Consequently, equity markets are experiencing heightened levels of volatility since it is difficult to ascertain the financial repercussions.

So what is an investor to do with uncertainty and fear driving the markets? During times like these, it is important to take stock of what happened, what are the facts, and what, if anything should be done about the matters at hand? Let's examine each of these questions to get a better understanding of how best to proceed.

What happened?

At the turn of the year, the market enjoyed some welcome relief from trade concerns, following the signing of the phase one trade deal. Global markets rallied leading to high levels of optimism and extended valuations. When news of the virus hit, investors' concerns led to a brief pullback in the market, but the "buy the dip" mentality limited losses and the rally ensued.

As news of those affected in China increased and the impact to business activity in the region intensified, financial markets remained buoyant, which led to complacency and heightened risks for stocks. With the market priced for perfection, there was little support if the impact from the virus proves worse than expected. Thus, news that the virus was spreading to other countries began a bout of selling that finally got investors' attention. Concerns over the global economy rose as key economic engines experienced a surge in cases. First China, then in Europe, and, now, the U.S.

Since the U.S. has held up the global economy of late, the news of it possibly experiencing a hit to business and consumer activity upended financial markets with volatility rising to extreme levels and stocks experiencing their worst losses since the financial crisis. At present, the S&P 500 has officially ended its 11-year bull market run and is now in a bear market after suffering a 20% drop from its high on February 20th of this year.

What are the facts?

In life, disciplines that guide our thought process help to keep our emotions in check in efforts to make prudent decisions. This is especially important when making financial conclusions and observations. Therefore, we believe that all investments should be guided by an investment philosophy directed by key market influences that drive market returns for the long-term. The primary areas that we focus on are interest rates, inflation trends, corporate profits, market valuation, and investor sentiment.

After the market's recent retreat, the outlook is mixed, with some areas improving while others show caution. Investor sentiment is a contrarian indicator, so when the market falls, it signals that it is oversold and may be due for a bounce. Interest rates remain historically low and, thus, should continue to support the economy.

However, corporate profits remain elusive and the trend in earnings revisions bears watching. Since profits are a key lever for stock prices, understanding the effect from the fallout of the health scare is important. Thus, the outlook for financial markets depends on getting a handle on not only the current state of corporate earnings, but their ability to recover from the disruption in both supply chains and end demand.

Unfortunately, investors dislike uncertainty and would rather sell first and ask questions later as evidenced by the indiscriminate selling of late. While stocks of high quality companies appear to be "on sale," we believe it is prudent to wait until there is more clarity on the condition of the global economy.

We are also watching closely for interventions by central banks worldwide, which should provide support to financial markets. So far, several have announced stimulus measures and have stated they would be willing to do more, if needed. For example, the Fed enacted an emergency rate cut and is likely to reduce rates again in their meeting in late March. In addition, fiscal stimulus from governments on a global scale appear to be in the works. Given the current fallout in financial markets, the questions seems to be not if they will, but when they will lend a hand. If this comes to pass, it should ease the economic ramifications from the health scare and, hopefully, soften the hit to the global economy.

What, if anything, should be done about the market dislocation?

When things appear too good to be true, they usually are. We had been concerned about the possibility of a pullback in financial markets, primarily due to investor complacency and extended valuation levels. As such, we have been monitoring the state of the markets and have written that caution was warranted and that periods of heightened volatility could be forthcoming.

While we expected a pause in the stock market, the level of gyrations in stock prices and speed at which risk assets have fallen have caught everyone by surprise. The magnitude of the day to day movements suggest that the selling may be overdone and astute investors should be careful not to get caught up in the extreme levels of ups and downs of market activity.

Although the prudent decision may be to take a step back and not make any rash

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Year-to-date through 03/11/20: DJIA 23,553.22 -17.5% — S&P 500 2,741.38 -15.1% — NASDAQ 7,952.05 -11.4%

Stocks for Different Objectives

Income Stocks

	03/11/20 Closing Price	Yield	Est EPS Next Year
SPDR WellsFargo Preferred Fd (PSK) *Preferred securities ETF*	41.87	5.72	N/A
AT&T (T) *Worldwide telecom & media company*	34.52	6.03	3.62
Vanguard Real Estate Fund (VNQ) *Real Estate REIT ETF*	81.34	3.87	N/A
Verizon (VZ) *Leading wireless telecom provider*	58.83	4.49	4.94
Prudential Financial (PRU) *Large life insurance co*	57.97	7.59	12.23

Growth Stocks

	03/11/20 Closing Price	Est P/E	Est EPS Next Year
The Walt Disney Co. (DIS) *Media networks and resort destinations*	105.51	19.8	5.34
JPMorgan Chase & Co. (JPM) *Global financial services firm*	95.96	9.08	10.57
ABB Ltd. (ABB) *Industrial equipment and systems*	18.83	18.6	1.01
Apple, Inc. (AAPL) *Multinational technology company*	275.43	20.4	13.51
Comcast (CMCSA) *Global telecommunications conglomerate*	37.91	11.8	3.22

Growth and Income Stocks

	03/11/20 Closing Price	Yield	Est EPS Next Year
Pfizer (PFE) *Global biopharmaceutical company*	32.17	4.72	2.80
Procter & Gamble (PG) *Worldwide mfr of consumer goods*	111.59	2.67	4.98
Kimberly Clark (KMB) *Global health and hygiene products*	134.16	3.19	7.27
Johnson and Johnson (JNJ) *Manufacturer healthcare products*	131.80	2.88	9.03
Walmart (WMT) *Retail giant*	114.43	1.85	5.11

Aggressive Growth Stocks

	03/11/20 Closing Price	Est P/E	Est EPS Next Year
Salesforce.com (CRM) *Enterprise software for client relationship mgmt*	154.57	115.8	1.34
PayPal (PYPL) *Worldwide on-line payment system*	103.90	39.5	2.63
SS & C Technologies (SSNC) *Software services to financial service providers*	46.06	11.8	3.92
Alphabet Inc. (GOOGL) *Internet search engine, cloud computing, delivery svs*	1,210.90	22.3	54.37
Check Point Software (CHKP) *Internet security solution provider*	90.75	15.6	5.81

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decisions, we understand that it can difficult to stay the course. Therefore, taking a close look at one's asset allocation and making sure that it is aligned with one's risk tolerance is likely a shrewd step at the moment. It may mean that an adjustment is appropriate or it could provide insight into one's overall financial condition. The wisdom of this often-cited advice probably feels more significant at present since the situation remains fluid. Thus, making informed and thoughtful decisions appears to be the best path to take especially when emotions can run high.

We remain watchful and vigilant and are carefully assessing the state of affairs as events unfold. While experience through previous market drawdowns has helped us weather the current storm, it is by no means easy and we understand that we all need reassurance and help during difficult periods. We are hopeful that we will get through this and are committed to helping you meet your wealth management goals. Now more than ever, we are here if you need any assistance and guidance during this time.

New Additions:

SPDR Wells Fargo Preferred Stock ETF (PSK): The Wells Fargo Preferred Stock ETF invests in preferred securities that are rated investment grade.

Vanguard Real Estate ETF (VNQ): The Vanguard Real Estate ETF invests in stocks issued by real estate trusts (REITs), companies that purchase office buildings, hotels, and other real estate property.