1st Quarter 2020 in Review

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"Somewhere in the world, the wrong pig met up with the wrong bat."

This quote from the 2011 movie Contagion is describing the origins of a pandemic wreaking havoc on the world. That fictional story hits a little too close to home as we all grapple with the current realities of COVID-19. Previously unused phrases like "flatten the curve" and "social distancing" have become common vernacular as we all adjust our lifestyle to minimize the damage this virus is causing. With nearly all public events put on hold, our entertainment options have dwindled. In my house, my 13-year-old son is craving sports so badly that he recently had me watching a women's cross-country skiing race that was held weeks ago.

A challenge that we face is not allowing the health pandemic to become a pandemic of fear. We are a society that has come to place a high value on comfort, control, and answers; each of which has been dealt a body blow by the coronavirus. Despite the very real negatives that confront us, here are just a few of the stories I've seen that demonstrate how the combination of human spirit, intelligence, and technology give reasons for optimism.

- Boys and Girls Clubs are providing free meals to families in need.
- Apple, SoftBank, Pepsi, Intel and many other companies are donating millions of protective items to healthcare workers.
- A Middle School in East Lansing is using 3-D printing to make medical masks.
- The Gap, HanesBrands, Ralph Lauren, Canada Goose and others, as well as automakers are shifting production lines to scrubs, gowns, masks, and other medical equipment.
- Robots are being used to assist medical professionals by disinfecting hospitals, collecting samples, taking temperatures, automating lab tests and other tasks.
- Families are spending more time together.
- Deaths from "all causes" are down significantly.
- Amazon is hiring 100,000 new workers.
- MIT has figured out how to make an emergency ventilator for $100 instead of the usual $30,000.
- Johnson & Johnson expects to begin trials for a vaccine in September.
- Researches are developing antibodies to neutralize the virus.
- 15 churches here in Indianapolis coordinated to provide 200,000 masks to health care workers.
- Medical treatments are experiencing success in treating patients with COVID-19.
- Even the New England Patriots have supported the effort by using the team plane to bring medical supplies from China.

Pandemics end. Markets recover. We will get through this.

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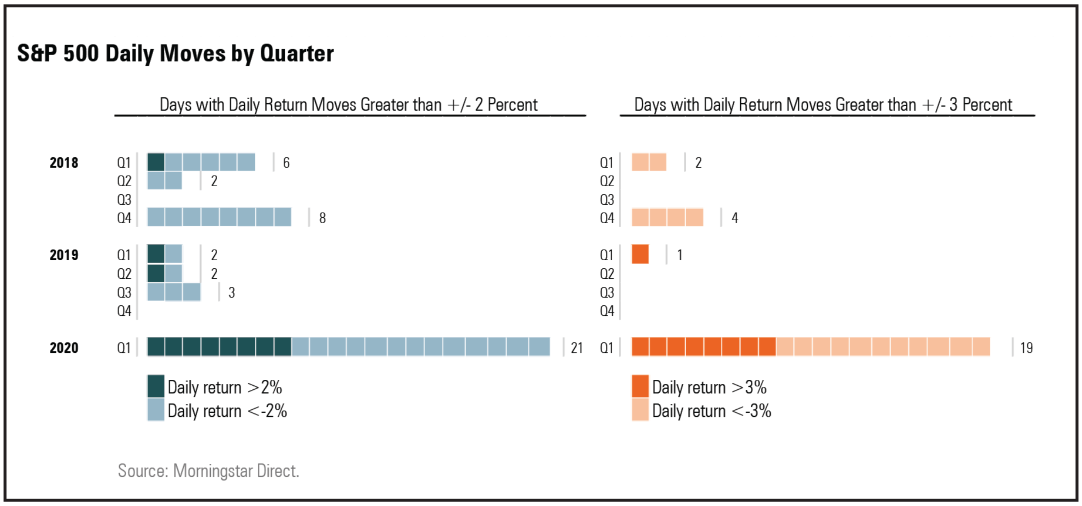
It is ugly, but here is what how the markets performed during the past quarter.

Index	3rd Qtr 2019 Return	1 Year Return	3 Year Annualized Return	5 Year Annualized Return
S&P 500	-19.6%	-7%	5.1%	6.7%
Nasdaq Composite	-14%	0.7%	10.4%	10.7%
Russell 2000 – Smaller Companies	-30.6%	-24%	-4.6%	-0.2%
MSCI EAFE – International	-22.8%	-14.4%	-1.8%	-0.6%
Barclays US Aggregate Bond	3.1%	8.9%	4.8%	3.4%

In our January newsletter, we talked about how every asset class was positive, this quarter the only place you could find a positive return was in Treasury bonds. The pace of the decline was remarkable; after hitting an all-time high in mid-February, the S&P 500 was in bear market territory (having dropped more than 20%) just 16 trading days later. The chart below just how volatile it was, with the market moving more than 3% (up or down) 19 days during the quarter, compared to a total of 7 times in the past 2 years.



That was the market's initial reaction to the sudden halting of a significant amount of economic activity. There are a plethora of guesses and no current answers as to what the next round of impact will be. Undoubtedly, there will be a rise in unemployment, a drop in corporate earnings, and a recession. The question we all would like answered is how long will this last.

As dark as the days can seem while we are still in the middle of the problem, there are some reasons for optimism:

- The economy was in quite good shape heading into the pandemic.
- Corporate balance sheets are in a much stronger position then the last crisis in 2008.
- The Government has acted quickly and strongly to help minimize the economic damage.
- Pandemics tend to follow a mathematical pattern and eventually die out.
- The Savings rate in the U.S. is near its highest level in the last 25 years.
- The economic damage, while perhaps severe, does appear to be temporary.
- Though the causes are different, market corrections have always been a part of the investor's experience, but the recoveries that have followed have always been rewarding.

So what should investors do?

Take a step back and view the forest instead of the trees. Remind yourself of your investment goals (re-evaluate if necessary) and see if you are still on track to accomplish them. For most people, those goals are long term in scope and a few months or quarters of a lower value on their statement does not invalidate their plan. Our advisors here at Castle are available to help you with that process.

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Source: Stockcharts.com

When you look at these graphs, keep in mind that they are all the exact same investment, the S&P 500. Notice how your perspective of each graph changes with the time frame. In the first graph, each data point is plotted hourly, in the second, the data is plotted daily, the third is weekly and the fourth is monthly.

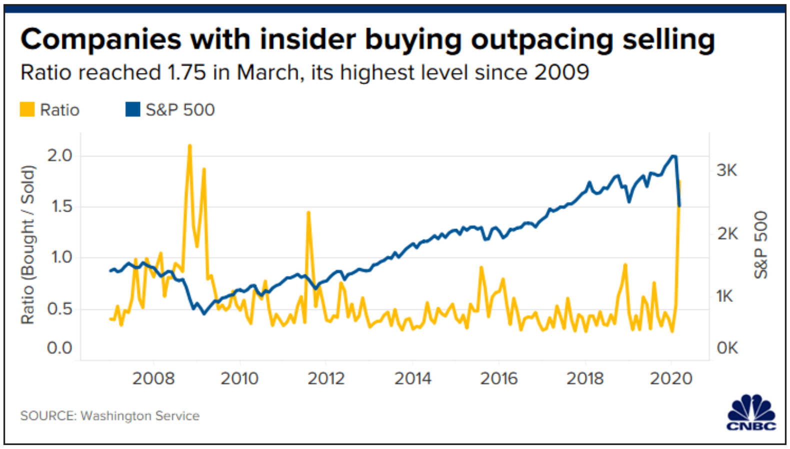
Think of the many investors who sold their stocks because the pain of 2008 was too great. Many of those missed the powerful rally of 2009 and beyond and in retrospect would have been much better off having done nothing. Sometimes doing nothing is the right thing to do.

This is indeed one of the investing principles mentioned in our January newsletter, many of which are especially applicable in times like this. If you missed it, you can check it out under the Investment Concepts tab at https://www.castle3.com/articles-overview.

Something else that might cross your mind when looking at the monthly chart is "Wouldn't it have been nice to have bought into the market in early 2009?" That certainly was a rare opportunity. It is quite possible that we are being presented with a similar opportunity today. This is not to say that we are advocating ditching your diversified investment portfolio in favor of a 100% stock allocation. But just like we mentioned last quarter that it was prudent to trim equity positions that had grown above their target allocation, we now believe that it is prudent to again rebalance by increasing the equity position to slightly above the target.

This correction has given us plenty of choices to find bargains; so, we are actively looking. We know that short of sheer dumb luck, we won't be able to buy at the exact bottom, but are confident that future returns will reward us for being approximately right.

Corporate executives, who presumably should have good insight into their company's long-term prospects, also seem to be signaling that this is a good time to buy low. The ratio of those insiders who are buying their company stock verses those who are selling has reached a level not seen since 2009.



Source: Washington Service and CNBC

If you are a retiree who doesn't feel like you have the luxury of a decade-long view, here are some things for you to consider. Your portfolio is likely made up of investments that are generating significant amounts of income. Despite the market drop, most of that income remains intact and should provide a certain cushion during the downturn. Take an honest look at the distributions that you are taking from your investment account. If your annual withdrawal percentage has gone from the 3-4% range to the 5% range, you likely don't have to be too concerned about depleting your account. If however, your withdrawal rate is approaching 10%, it might be time to consider reducing your distributions. Again, our advisors are here to walk you through all of that analysis. Third, re-visit your RMD (Required Minimum Distribution) plan. This was addressed in the recent relief bill passed by Congress known as the CARES Act. Gary Pittsford recently wrote a nice piece that explains the impact on RMDs as well as many other ideas for both individuals and business owners. If you haven't seen it, it is also available on our website under the Investment Concepts tab at https://www.castle3.com/articles-overview.

We know these are hard times for many and we don't want to minimize the emotional challenge that it is to navigate these days. Please let us know how we can help as we journey through the valley together. Keep in mind that though most every event you can think of has been cancelled, the following is also true:

- The sun is not cancelled.
- Hope is not cancelled.
- Imagination is not cancelled.
- Love is not cancelled.
- Relationships are not cancelled.
- Kindness is not cancelled.

Stay safe and healthy, there will be better times ahead.