

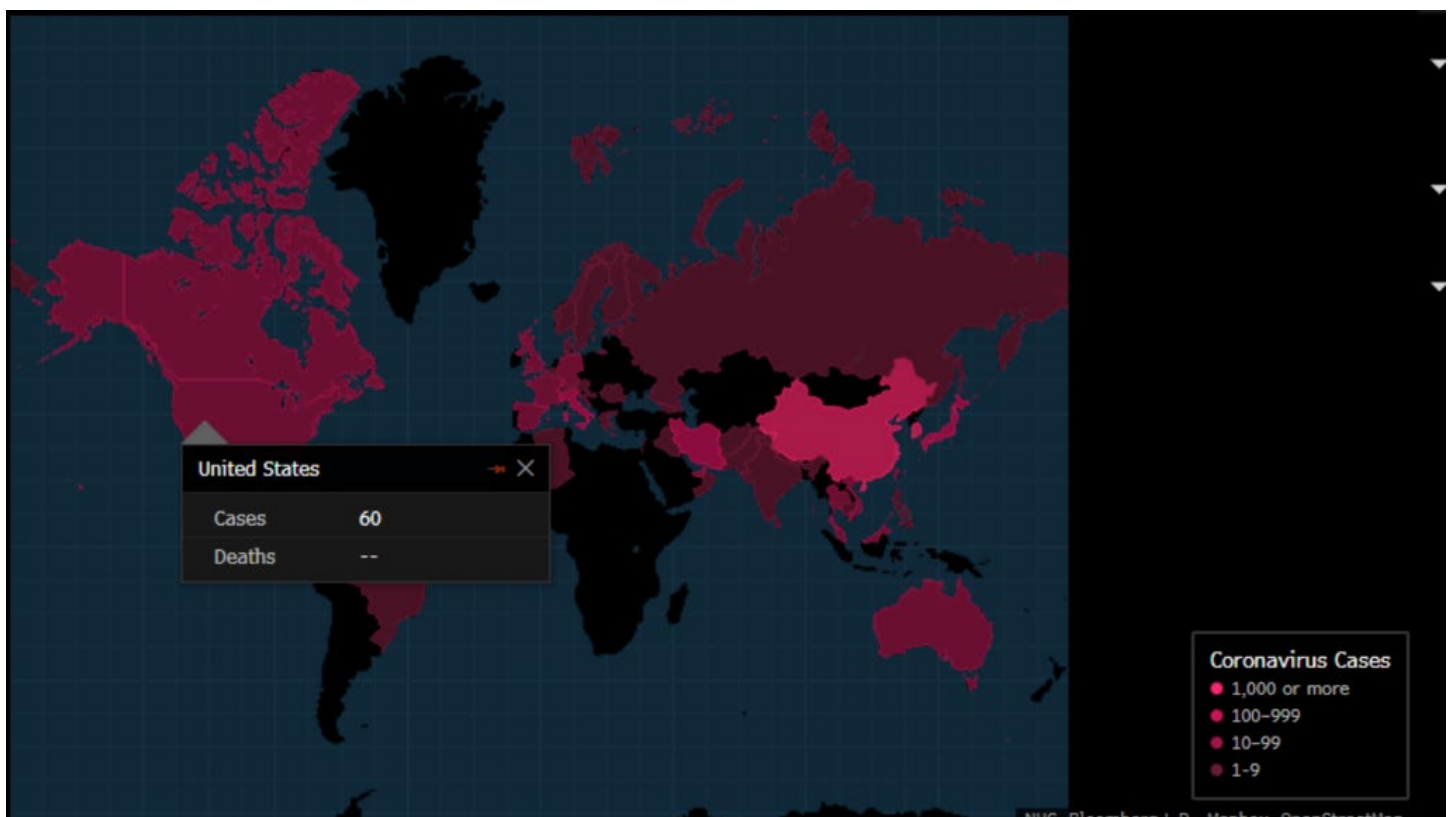
Corona Virus – Makes Stocks Sick

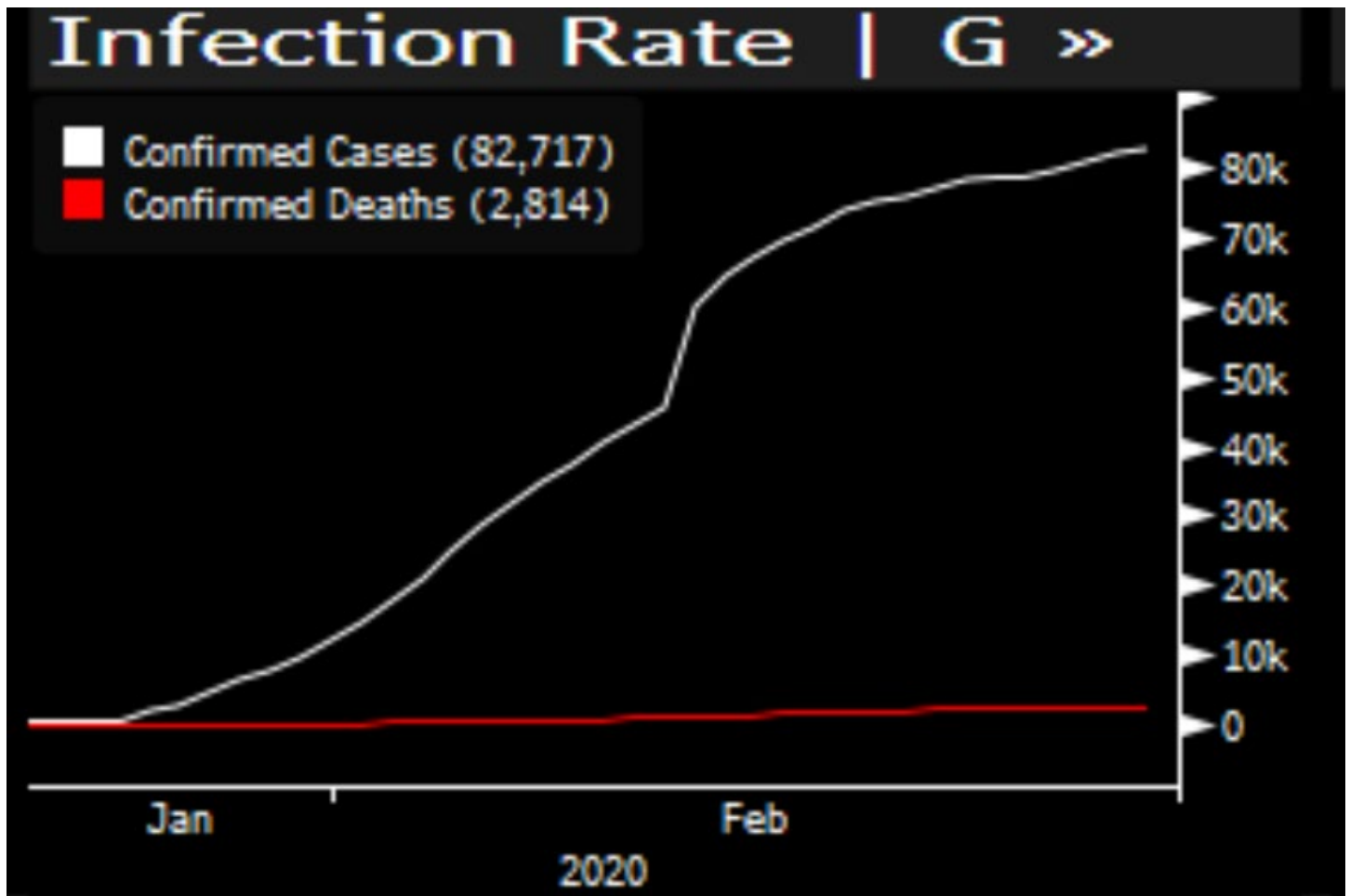
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Feb. 27, 2020

Corona Virus Spread to Italy

Over the weekend, cases of the Corona Virus were reported on an accelerated basis in South Korea (1766 cases, 13 deaths) and Italy (400 cases, 12 deaths). The sharp sell-off this week is perceived to be a result of the growth of the disease outside of China, and possibly assisted by Bernie Sanders' momentum in the Democratic primaries, as his proposed policies are the most concerning to investors. Our Bloomberg Terminal is providing us excellent information on the virus and the most up to date information. Below is a "hot map" of the outbreak of Corona Virus from **Bloomberg**.





The economic implications of the Corona Virus will slow worldwide commerce. What is less certain, is the duration and magnitude of the decline. Corporate earnings will be hurt too. Many companies have begun to announce that their earnings will fall short due to the virus. The investor debate will be if “they get a pass” or will there be a permanent loss of business. Some industries may experience permanent changes in operations, such as, the cruise lines and entertainment. Conversely, medical and technology industries may have long-term opportunities from the potential pandemic diseases. The financial news has been discussing the possibility of a Federal Reserve rate cut. While financial markets are betting on three cuts this year, the impact will be more psychological than tangible. However, anything to keep up the financial markets will help keep consumer spending, given the significant number of retirees living off their IRA portfolios.

Portfolio Action

Leading up to this week's sell-off, we have been inching cash levels higher and reducing equities. Our strategy has been to reduce equity exposure over the next few months in line with the historical seasoned strength in stocks (Halloween to Easter). Further, many risks could surface as the year progresses. Funds will be directed over time to the fixed income and bond ladders of high-grade issues. In the short-term, funds have been invested in the Fidelity Conservative Bond Fund.

As we have reduced equity exposure in general, we did add a holding in Gilead Sciences (GILD) to some portfolios. Gilead has the leading drug to combat Corona Virus. Gilead has a long history in the development of life saving drugs for HIV and Hepatitis C, thus well positioned to cure Corona. Gilead is a similar investment opportunity to Bristol Myers last year which was unloved by investors. Most analysts are not recommending Gilead, but the stock is cheap, and the dividend yield is 3.8%. The corona virus is a potential catalyst for increased investor confidence and long-term earnings growth.

Financial Markets: Have Stock Bottomed and Bonds Peaked?

Many of our short-term indicators suggest the SP500 may have bottomed this morning. There is a 50% chance stocks have bottomed. The SP500 was down around 10% this morning. Time will tell. It may also need to "bounce" around 3000 a few times to build investor confidence it will hold. Don't be surprised if stocks dip below 3000 as everyone is watching this level. Also, the 10-year Treasury bond may have peaked at 1.24%, the lowest yield ever.

SP500 looking for support at 3000



Further thoughts- with bond yields falling again, refinancing a home mortgage might be your biggest bargain available. A 15-year mortgage could be at 2.99%.



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Disclosures

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