THE TYSON SMITH GROUP OF RAYMOND JAMES®

PANDEMIC PANIC

And what to do now

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It seems the National Media Companies are in competition to see who can create the scariest headlines regarding the COVID-19 viral infection and the information being presented is consistently inconsistent. Capital Markets are experiencing violent variability and have fallen nearly 30% off their most recent peaks at the time of this writing. Our offices are actively supporting client needs and responding to questions while continuing to conduct research and monitor portfolio changes and opportunities.

In many cases, I've found that the general population is confused and misled; seeking guidance on how best to respond to this threat. One friend sent me a message stating that stated they *'received a message from a family member who received a message from a friend, who received a message from a reliable source, who had also received a message from a very reliable source, who had been in a White House meeting and heard that the President was going to invoke the Stafford Act and use it to declare a National Lockdown.'* After a quick Google search, anyone reading this paper can search "Stafford Act Hoax" and the internet will show that this message is clearly false and that it doesn't give The President this power.

Here are the facts. The Robert T. Stafford Disaster Relief and Emergency Assistance Act, 42 U.S.C. 5121-5207 (the "Stafford Act") was not *going to be* invoked, because *it already was* on March 13th. The Stafford Act isn't intended to be used to create Martial Law, it's designed to allow FEMA to directly assist state and local governments by tapping into a $50 billion fund earmarked for disaster relief. It's frequently used by Presidents in times of emergency and Trump has used it before when dealing with Hurricane Maria and the California wildfires. President Clinton also used it in 2000 to help combat outbreaks of the West Nile virus.

According to the Center for Disease Control, the CDC (www.CDC.gov), the virus we're currently combating is named "SARS-CoV-2" and the disease it causes has been named "coronavirus disease 2019" abbreviated to COVID-19. The International Health Regulations Emergency Committee of the World Health Organization (WHO) declared the outbreak a "public health emergency of international concern" on January 30th of this year. The following day, Health and Human Services Secretary Alex M. Azar II declared a public health emergency (PHE) for the United States. On March 11, the WHO publicly characterized COVID-19 as a pandemic. Two days later the President of the United States declared the COVID-19 outbreak a national emergency.

This virus originated in Wuhan, Hubei Province, China and many of the early patients had some link to a large seafood and live animal market; suggesting animal-to-person spread. Later, a growing number of infected persons didn't have ties to the market, supporting the theory that person-to-person transmission was possible. Additional information from the CDC can be found on their web site (www.CDC.gov). If you would like the longer link to the specific article on COVID-19, please feel free to drop me an email and I'll pass it along.

The World Health Organization also maintains a dashboard with a listing of all cases, deaths and countries/areas with cases. As of March 17th; there are 184,975 confirmed cases spread across 159 Countries, Areas or Territories with 7,529 resulting deaths. The total number of cases in the United States is listed at 3,536; slightly less than 2% of the total confirmed cases are within the U.S with only 58 resulting deaths (1.6%). These numbers are expected to climb as testing kits have become more readily available and more people are discovered to have contracted the virus. For comparative purposes, I also pulled data on other infectious diseases from the CDC.

Disease/Infection	U.S. Deaths in 2017	
Influenza AKA "The Flu" & Pneumonia	55,672	
Diabetes	83.564	
Alzheimer's	121,404	
Stroke (Cerebrovascular diseases)	146.383	
Unintended Injuries	169,936	
Cancer (Malignant neoplasms)	599.108	
Heart Disease	647,457	
COVID-19 (2020, so far)	**58 / 114**	**(WHO/Johns Hopkins)**

Rapid and Decisive action by leadership in the United States seems to have put the United States in a very good place regarding this threat. Initially, the decision to limit flights from China was criticized in the media but the resulting fatality levels seem to have justified the quick response. By comparison, Italy wasn't as proactive as the U.S. and now has 27,980 confirmed cases and 2,158 resulting deaths. Only China has more cases than Italy at this point. This link will take you to the interactive WHO dashboard: https://experience.arcgis.com/experience/685d0ace521648f8a5beeeee1b9125cd.

Johns Hopkins University is also publishing regular updates on the spread of COVID-19 and their numbers are different from those published by the World Health Organization. In fact, they're higher…so that's the number you'll typically hear from the news media as it tends to be more of an alarmist message. They currently list the Total Confirmed cases in the U.S. at 6,496 with 114 total deaths. They're also more granular and break down the data in the United States to the individual states. Interestingly, they also publish the number of Total Recovered infected persons, which is currently listed at 81,961 globally (17 in the U.S.). To see their interactive data map, please use this link: https://www.arcgis.com/apps/opsdashboard/index.html#/bda7594740fd40299423467b48e9ecf6.

<u>What to do now</u>

I have a story.

Several weeks ago, my daughter Taylor, who is a sophomore in college, called and asked if she could bring some friends home to Florida for Spring Break. We thought that would be really cool and told her to come ahead and bring as many friends as she wanted. As the weeks went by, the trip got finalized and this Spring Break trip ended up including 20 of the runners from her track team for 6 days, after which they would drive north to Myrtle Beach and run in a track meet. Twenty college-age visitors for 6 days seemed like a bit much so we suggested that a concurrent rental might be wise. There were 10 boys and 10 girls so we decided to host the ladies and suggested the gentlemen stay at an Air BNB rental. Besides, I didn't want to sit up all night with a shotgun in my lap making sure there was no funny business.

Their arrival date was scheduled for Saturday, March 7th (pre-pandemic) and their departure would be on the 12th. We just had a few things to get done in preparation. As we did our final shopping, I was commenting on how much of everything we were buying. I mean, I understood that we would need enough food to feed a platoon but "All these paper towel rolls? All this TP?" My lovely wife just smiled and said "It won't go to waste and we definitely don't want to run out." Made sense to me. It was something that we just wouldn't have to worry about during the visit which would allow us to focus on other more important matters while they were here.

So, when **#toiletpapergate** and **#toiletpaperapocalypse** started happening, I was really interested but completely understood the psychology behind this trend. When you don't have control of most things in a situation, people feel better checking off those little things that "might" be an issue later on.

The psychological impact of this infectious spread has been very interesting to observe. Unlike a hurricane, tornado or other natural disaster, there isn't a clear course of action that can be taken. Stocking up on water or installing storm shutters won't do any good. Power isn't expected to go out nor will we be trapped in our homes for several days. There won't be physical damage with which to contend once it passes nor will we be prevented from returning to our normally operating lives for an extended period of time. People need to do *something* though. For now, apparently it's time to stock up.

By the way, we still had 39 rolls of toilet paper in our pantry after the ladies left.

Here are some additional facts about epidemics and the resulting market conditions. I pulled this data from Dow Jones.

Epidemic	Month End	6-month % change of S&P	12-month change of S&P
HIV/AIDS	June 1981	(0.3)%	(16.5)%
Pneumonic Plague	September 1994	+8.2%	+26.3%
SARS	April 2003	+14.59%	+20.76%
Avian Flu	June 2006	+11.66%	+18.36%
Dengue Fever	September 2006	+6.36%	+14.29%
Swine Flu	April 2009	+18.72%	+35.96%
Cholera	November 2010	+13.95%	+5.63%
MERS	May 2013	+10.74%	+17.96%
Ebola	March 2014	+5.34%	+10.44%
Measles/Rubeola	December 2014	+0.20%	(0.73)%
Zika	January 2016	+12.03%	+17.45%
Measles/Rubeola	June 2019	+9.82%	n/a (TBD)

Investor Responses to the Market

Several months ago, we hosted Jeff Saut at a conference. Mr. Saut has been in the financial industry a very very long time and has a wealth of experience. During his commentary he stated that huge market pullbacks like this only come along a few times during our investing lives and most of the time, we miss them. I agree with Jeff and here's what I've seen.

First Timers: Generally, the first time we see it, we're young, and don't have the funds to capitalize on the market pullback. By the time it's over, it's a story of "I wish I could've.".

Second Timers: The second time we see it, most folks have already been putting funds into investment accounts either through 401(k)'s, IRA's and other vehicles. Still young and inexperienced, the initial instinct will be to sell everything and move to cash. "I've worked too hard to build this nest egg and need to stop the bleeding while there's still something left. I'll buy back when it's better." This type of inexperienced thinking results in selling low and buying back higher. (the opposite of good investing) or, worse yet, they put it in illiquid real estate instead of using smart leverage. Second Timers are most at risk during a pullback because of the impact they will have on themselves, not because of the market. By the time they've made up their mind to reinvest, most of the opportunity has already passed.

Third Timers: These are the folks who generally hit it big. They've been here before and know how the movie ends. They know that the equity markets have never ever gone down and stayed down. They know that these big pullbacks are rare and create huge value for the brave. They've heard and heeded Baron Von Rothschilds advice and they buy. They call their advisor often. They buy smart and they buy big. They look for new money in any place they can find it and get it invested wisely. When the dust settles…. these are the people who win big.

Fourth Timers: If someone is lucky enough to see a fourth major pullback in the equity markets during their investing lives, it's generally a foregone conclusion that they'll be backing up the truck and loading up on their financial advisors strongest recommendations. They may not be quite as aggressive as the previous pullback but they know this fourth event can end up creating a legacy for future generations, pay for grandchildren's college and create the means to be philanthropic on a large scale. It can be a game changer for their legacy and their family.

Sometimes, these pullbacks can last for years. I saw this in 2000, 2001 and 2002 as we came out of the late 90's and the dot-com bubble. During those years, we saw -10.14, -13.04 and -23.37 returns out of the S&P 500. These were followed by a 5-year run to the upside. Other times, it's much quicker, as we saw in 2008's -38.49% drop, which was also followed by several strong years compounding upon each other; 6 of the ensuing 8 years ended up with double digit returns. The two years that were flat to down ended up with less than a 1% move.

That brings us to today. What to do now, based upon economic conditions as they currently exist?

Let me open by saying that these are **my** opinions based upon 22 years in the industry and all my previous experience. There's no guarantee that my expectations will come to pass but I'll share my thoughts, analysis and expectations.

There are currently two major issues impacting the equity markets. One is COVID-19, dubbed the "Coronavirus". The second is an Oil War between Russia and Saudi Arabia/OPEC.

<u>The Equity Markets</u>

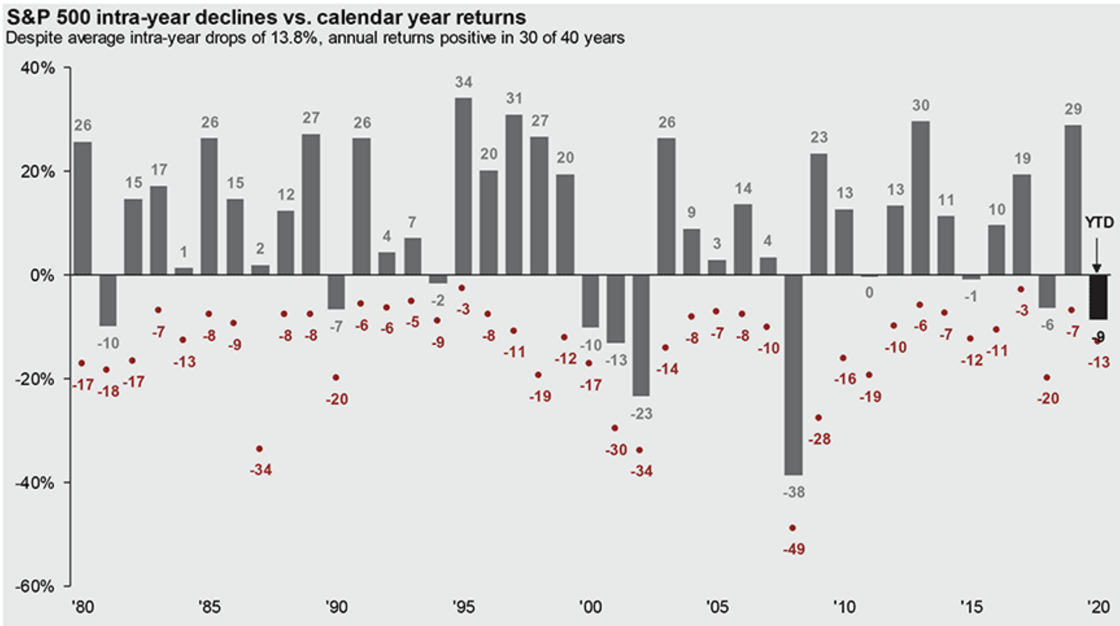
As of this writing, the S&P 500 is nearly 30% off its peak and oscillating in large swings on a daily basis. These types of volatile swings tend to happen at times the market is trying to reverse direction and we see it often at market tops and market bottoms. As we've just experienced a sizeable drop, this may be indicating that it's trying to reverse course and head back up.

Markets pull back all the time. Sometimes it's a simple 2% down day and other times, it's a larger attention-getting number. Still other times, it becomes a pretty significant correction and big headlines are made. This chart, compliments of my partners at J.P. Morgan, illustrates two numbers for every year going back to 1980. The first number, above the gray bar each year, represents the final performance of the S&P 500 index for that year. The second number, below the red dot, illustrates the intra-year decline off of its high during the year. For example; in 2019, the S&P 500 was up 29% but during the year, there was a moment when it had fallen 7% off its high. That doesn't necessarily mean the index went into negative territory and in many cases it didn't, it simply means it pulled back and dropped. What I find interesting is the reactions to these pullbacks when they occur. 1998 is a great example of a fantastic year; ending up 27% but at one point, there was a 19% pullback. Talk about nerve-wracking!

Annual returns and intra-year declines

GTM – U.S. | 13

Equities



Source: FactSet, Standard & Poor's, J.P. Morgan Asset Management.
Returns are based on price index only and do not include dividends. Intra-year drops refers to the largest market drops from a peak to a trough during the year. For illustrative purposes only. Returns shown are calendar year returns from 1980 to 2019, over which time period the average annual return was 8.9%.
Guide to the Markets – U.S. Data are as of February 29, 2020.

J.P.Morgan Asset Management

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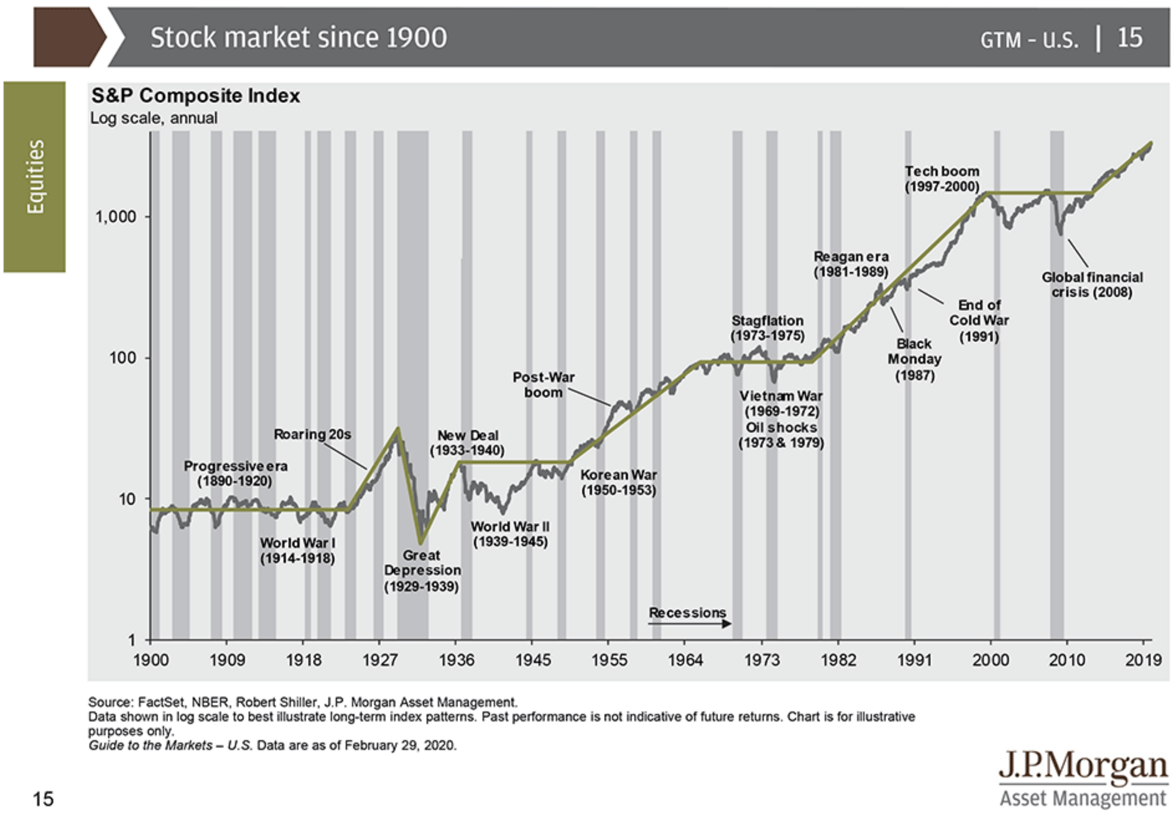
This next piece further drives home the point that markets have never, ever gone down and stayed down. The market has always recovered and come back to us over time.



<u>Oil</u>

Oil prices have also fallen significantly as production has increased without concurrent demand increases. This has been politically driven. I'll explain.

To begin, I need to outline a key difference between the United States and many other countries around the globe. The U.S. Government, if thought of like a corporation, is a service entity. It provides services to the citizens of the United States to protect and take care of certain needs. The U.S. Government provides protection through our military, Social Security for retired persons and those in need, college loan programs, the U.S. Postal Service, FDIC Insurance, Inspections of meat, dairy and food products, etc., etc., etc. It's an extensive list of services and would take a long time to list everything they do for us. The question then becomes, 'How does the U.S. Government get money to pay for these services?'. Easy answer – They collect taxes.

The government doesn't charge us directly for each service they provide but rather, they collect large chunks of money from citizens through tools like Income Tax, Capital Gains Tax, Estate Tax, Excise Tax, Gift Tax and several others. Those dollars are then used to pay for government employees, military troops & equipment, government buildings and many other things needed to provide those services.

What's interesting, is that no matter what industry is doing well, the U.S. Government is going to get paid. For example, if the Automotive Industry is having a stellar year and cars are flying out the dealership doors, those Auto Companies will have huge profits and the U.S. Government will participate in their success by taxing those profits. If, in a subsequent year, the Auto Industry isn't doing as well but the Oil industry is running strong, the government will get revenue from the Oil Industry profits. This holds true across all industries in the United States and is one of the most stable Financial Models for a country. No matter who's doing well, the U.S. Government always gets paid.

However, other countries don't do it like this. Other countries don't tax their corporations and citizens like the U.S. Government does. They also don't allow the freedoms that the U.S. Government provides us. Instead, those foreign entities will collect revenue to pay for their military and services provided to their citizens through other means, usually through profits on oil.

In the United States, private corporations and citizens own the mineral rights to oil under the ground and the government doesn't. In countries like Saudi Arabia, Russia, Iran and Iraq, among many others, those mineral rights are owned by the government and their government keeps any profits on oil sales. Those profits are then used to provide services to their citizens. If profits are down, they don't have diversified means by which they can collect money and are forced to borrow from others or cut services altogether. It's a much more volatile model. When the price of oil is low, profits are low for foreign countries. When prices are high, they have more money to do more things for their citizens…. Or support a military operation against another nation.

Each country also has a different Cost of Production for each barrel of oil produced. Russia, as an example is estimated to have a Cost of Production somewhere north of $35 per barrel. (We can't be certain of course because Vladimir Putin isn't exactly opening his books to us.) Saudi Arabia has a much lower cost of production and is estimated to be in the low 20's or even teens. Kuwait and Libya are estimated to have the lowest Cost of Production. This means that Oil at $30 per barrel is still profitable for Saudi Arabia but not for Russia. Russia needs much higher prices in order to earn the revenue to run their country at full capacity.

Oil prices are influenced by supply and demand. As we ship more products, manufacture more plastic items and drive more cars and boats, more oil is needed and demand increases. Conversely, when economic conditions slow down, demand lessens and prices will generally fall. To help offset these wild fluctuations in prices caused by demand changes, a group of nations came together to coordinate their oil production or Oil Supply and thereby influence prices by manipulating supply. This organization was formed in 1960. It was a 14 member nations group that called themselves The Organization of the Petroleum Exporting Countries or OPEC for short. The members have changed throughout the years and there are currently 13 member countries. You can see the list and review their web site through this link: https://www.opec.org/opec_web/en/about_us/25.htm. Notably absent is Russia.

This brings me to our most current situation. According to an article published on ForegnPolicy.com Russia and Saudi Arabia were in talks regarding oil prices and production. There was a bit of a tiff and a falling-out between the two. The result has been an "Oil War", of which you and I have benefited. Russia, it seems, has declined to 'fall in line' with the OPEC mandate to cut production in order to support higher oil prices. At that time, oil was trading around $50 per barrel. Once this conflict occurred, both countries started a game of chicken that is depleting their reserves. Russia claims it has enough to outlast Saudi Arabia. Saudi Arabia further dropped the price of oil to put additional pressure on Russia and that's where we are today. Estimates say that Russia has $550 billion in reserves but if oil prices stay low, say around $27 per barrel, they would need to borrow $20 billion dollar a year to balance the budget. If you'd like more details from the article, you can access it through this link: https://foreignpolicy.com/2020/03/14/oil-price-war-russia-saudi-arabia-no-end-production/

Who benefits? You and I do at the gas pump. FedEx and UPS do as their cost to drive trucks has declined. Airlines and Cruise ships do because their fuel costs are much lower as well. (Granted, there are other more-pressing issues impacting the Airline and Cruise industry.) The United States Government benefits as well, not just through their lower fuel costs in the military and U.S. Postal Service but also since those countries are highly unlikely to be staging any hostilities toward us or any other countries while their budgets are so tight.

Interest Rates

One unintended consequence of our recent market weakness has been the drastic reduction in interest rates. The 10-year Treasury was as high as 3.24% in November 2018 and fell significantly leading up-to and during this recent market correction. At one point, the 10-year was trading around 43 basis point (bps) or 0.43%; closing at 54 bps that day.

Interest rate movements are a numeric representation of investors' desire for safety. Since the U.S. Government runs the budget at a deficit each year; they spend more than they collect in taxes, tariffs and other revenue streams, they need to borrow the difference. Borrowing is done in the form of issuing I.O.U.'s, AKA Treasury Bonds and Bills. When there is high demand for these low risk investments, the Treasury Department can reduce the rate at which those bonds are offered and thereby reduce the cost of interest that the government pays each year. When demand is lower, the Treasury department has to raise rates in order to attract investors to buy the bonds.

Conclusions and What to Do Now

1. **CONSIDER BUYING THIS MARKET** – I could be dead wrong and we may fall much further but my experience tells me that this market is cheap. This also doesn't feel anything like 2008, when the financial system was collapsing around us and banks were shuttering their doors. This just feels… like an opportunity. Call me for my buying list.

2. **LOOK AT YOUR DEBT** – Interest rates are back down around all-time lows have given us the opportunity to look at refinancing Mortgages, Corporate Paper and possibly restructure any other debts clients are holding. I can introduce you to a great banker to help you get the best rates.

3. **UPDATE YOUR FINANCIAL PLAN** – Let's take a few minutes on the phone to go over our plan and update any information that's changed.

4. **SET UP A CONFERENCE CALL FOR YOUR EMPLOYEES AND FAMILY** – I spend all day on the phone with clients, discussing the markets, my analysis and expectations for the next few months. If you would like your employees and/or family members to be part of a conference call where we can discuss the issues and answer specific questions, please reach out to us and we'll schedule time on the Tyson Smith Group Conference Line.

5. **TAKE SOME TIME TO SLOW DOWN AND RELAX** – This pandemic is serious but the decisive actions and extensive action plans in place should help eliminate this threat. This will pass. In the meantime, it's a great time to tackle home projects, catch up with old friends and get a nice workout in.

6. **SHARE THIS PIECE WITH YOUR FRIENDS, FAMILY, CO-WORKERS AND NEIGHBORS** – I understand that this is a long document that covers a lot of topics but people have many questions in various areas that this may help them understand a little better. They're also welcome to give us a call to discuss

***Tyson Smith**, AAMS®, AIF®, CRPC®, CRPS®, WMS, First Vice President - Investments*
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