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SECOND QUARTER 2020 NEWSLETTER

Coronavirus Crisis

We begin with a thank you to our clients, family members and friends working in the healthcare field fighting the coronavirus. We owe you a debt of gratitude. Stay healthy!

Coronavirus (COVID-19) first appeared in China in mid/late December. For the longest time, the virus appeared to be an obscure illness in a faraway place. The disease was shrugged off by many western world leaders and the markets.

Everything was fine until it wasn't! COVID-19 became a harsh reality overnight causing world markets to sell off in dramatic fashion.

The Dow Jones Industrial Average reached an all-time high in mid-February and then proceeded to plunge into bear market territory in just 19 days, the fastest such decline on record. The S&P 500, the NASDAQ Composite and the MSCI EAFE Index followed suit.

Interest rates plunged and the price of crude oil dropped by more than 60%. The precipitous decline in crude was exacerbated by a breakup in dialogue between OPEC (Saudi Arabia) and Russia over proposed oil production cuts in the midst of the coronavirus pandemic. Oil prices had already fallen 30% YTD by the onset of the dispute.

The US and world economies came to an abrupt halt making a worldwide recession a near certainty. Unemployment has already risen in dramatic fashion.

For the government of the US, and most western nations, this is a *whatever it takes* moment.

The Fed cuts its key interest rate to zero and announced what amounts to near unlimited QE (quantitative easing) to inject liquidity into the system. Congress has passed a $2 trillion plus stimulus package of loans, aid and payments designed to keep the economy going.

It is clear that spending will soar, and deficits will skyrocket.

Perhaps the only good news is that the economy was in good shape before the virus hit.

Review of Previous Quarters:

	12/31/2018	12/31/2019	03/31/2020	YTD Change as of 03/31/2020
S&P 500	2,506.85	3,230.78	2,584.59	-20.00%
Dow	23,327.46	28,538.44	21,917.16	-23.20%
NASDAQ Composite	6,635.28	8,972.60	7,700.10	-14.18%
MSCI EAFE	1,719.88	2,036.94	1,559.59	-23.43%
10-Year Treasury Note	2.68%	1.92%	.68%	-124 basis points
3-Month T-Bill Rate	2.37%	1.55%	.13%	-142 basis points
Price of Gold (COMEX)	$1284.70	$1,520.00	$1,591.00	+4.67%
Crude Oil (NYMEX)	$45.81	$61.21	$20.10	-67.16%

Inclusion of these indexes is for illustrative purposes only. Keep in mind that individuals cannot invest directly in any index, and index performance does not include transaction costs or other fees, which will affect actual investment performance. Individual investor's results will vary. Past performance does not guarantee future results.

- *A **basis point** is 1/100th of one percentage point.*
- ***Treasury Bills** are certificates reflecting short-term (under one year) obligations of the U.S. government.*
- ***Treasury Notes** are marketable U.S. government debt securities with a fixed interest rate and a maturity between one and ten years.*
- *The **S&P 500** is an unmanaged index of 500 widely held stocks that's generally considered representative of the U.S .stock market.*
- *The **NASDAQ** composite is an unmanaged index of securities traded on the NASDAQ system.*
- *The **Dow Jones Industrial Average** (DJIA) commonly known as "the dow" is an index representing 30 stocks of companies maintained and reviewed by the editors of the Wall Street Journal.*
- *The **MSCI Europe, Australasia and Far East Index** is a market capitalization weighted selection of stocks from 21 developed nations excluding the US and Canada.*

The Current Environment

How long will it take for us to get back to work and get the economy moving again? Unfortunately, no one knows the answer.

A characteristic of equity markets is that they anticipate the future and it is quite possible we will see improvement in stock prices ahead of tangible improvement in the economy.

Having said that, our view at MCM is that investors seeking bargains should proceed at a deliberate pace. Prices have recovered somewhat off the lows; however, it is not uncommon to experience a subsequent selloff and test of recent lows. The formation of a market bottom tends to be a function of both price and time. A good approach might be to commit funds to the markets at intervals over the next few months.

Our advice is to remain flexible and expect big swings for some period of time.

We counsel against a doom and gloom viewpoint at this juncture. There are in fact any number of positives:

- Fed action and the stimulus program are bound to provide a boost.
- There are already signs of a resurgence of economic activity in China suggesting this may not last forever.
- There have been so many dire forecasts on the spread of the coronavirus that it is possible the disease will not live up to the most ominous expectations.
- Low interest rates provide an opportunity to refinance and may support the housing industry.

One old Wall Street pundit observed that it would be quite difficult to experience a negative surprise given all the recent news and pessimistic forecasts.

Another thing to consider is the Economics 101 concept of supply and demand. We have experienced a race to cash given the abundance of sellers of risk assets such as stocks. This suggests that long-term values are being created that have the potential to benefit savvy investors in coming months.

At MCM, we also see opportunities to upgrade holdings and enhance tax efficiency in client portfolios. We are exercising patience for the moment but anticipate many constructive opportunities in the quarters ahead.

Crises often create conditions that serve as a springboard for change and innovation. For example, it is likely that China will be less dominant in manufacturing. Businesses are almost certain to diversify supply chains by locating manufacturing facilities in a variety of locations. The end result may well be much greater sustainability for US corporations.

There may be a greater focus on work at home opportunities. Such actions offer the potential to reduce costs and the perceived opportunity to protect the health of workers in a post coronavirus pandemic world. We may see pressure on the cost of office rents should such a trend emerge.

It will be interesting to monitor developments in the world of higher education. Parents have now observed college students learning at home via the magic of technology. Will they continue to be willing to pay $70k plus to send children off to college?

Timeless Wisdom

As we endure this most unpleasant stretch in the markets, it is a good time to remind ourselves that the key tenets for successful long-term investing have not changed.

For most of us, our investment time horizon is the rest of our lives and portfolios should be constructed accordingly. Liquidity and cash flow needs must be addressed from the outset. Beyond that, a well-conceived mix of bonds and stocks provides the potential for achieving adequate returns to accomplish long-term goals while dampening the effects of short-term volatility.

Judging portfolio results on a short-term basis is a recipe for disappointment. Once again, your portfolio is set up to help achieve long-term goals. The real enemy in the long run is the rising cost of living, not short-term volatility. We believe the best investors think in terms of 5 years and beyond.

Markets fall faster than they rise because fear is a stronger emotion than greed. Sharp declines are never fun, but they have happened before and will happen again.

As equity investors, we must persevere through market corrections to participate in attractive long-term results.

Let's look at the most extreme example. The S&P 500 dropped 57% from peak to trough during the financial crisis. Investors who stayed the course recovered their losses by 2013. As you might imagine, an account with a balance of stocks and bonds did much better.

We believe the key is to allocate your investments in a balanced fashion such that you can stay the course even in the face of difficult markets. The return you experience as an investor is a function of the results your investments deliver and your own behavior. A pattern of exiting markets in the midst of a downturn and failing to get back in is a recipe for poor returns.

Patience is perhaps the most important quality exhibited by successful investors. In the short-term markets fluctuate greatly driven by emotion. In the long-term markets rise, reflecting the true value of underlying businesses.

Did you sell any shares today? If not, it is correct to say that today's price was not your price.

For most of us, today's price means little as far as our long-term success. The key is to manage our own behavior.

Even if you are in the distribution phase with your portfolio, periodic withdrawals at a sustainable rate will serve to diminish the impact of short-term market volatility.

Our advice is to invest in quality, stay diversified and be patient. Continue to rebalance on a regular basis.

Interestingly, when we get back to rebalancing in coming months, it is likely we will be selling bonds and buying equities to restore the desired allocation in a portfolio. This is just the opposite of the rebalancing we have done in recent years and represents an intelligent method for taking advantage of the selloff.

Our Job at MCM

At MCM we often feel that it is our job to be a cheerleader when the chips are down and the voice of reason when markets are exuberant. As you might imagine, we are shaking our pom poms vigorously right now!

Successful investing is not complicated, but it is difficult. Our human emotions can present the greatest obstacle to our success. It is one thing to know what is right from an intellectual point of view, and quite another to have the fortitude to follow-through on those convictions at the height of a selloff.

Corrections (a 10% drop in the market) happen once a year on average and bear markets (a 20% drop) happen once every three years. God willing, there are many corrections and bear markets in your future.

Our job is not to predict corrections and bear markets but rather to build portfolios that can withstand them. In large part, the key is that investors must be comfortable staying the course through adverse markets.

At MCM, our approach remains consistent, in good markets and bad.

We strive to allocate your portfolio to have the growth potential to help achieve your long-term goals, in concert with a level of volatility that enables you to stay the course through thick and thin.

Our experience is that we get better long-term results by staying fully invested. It is nearly impossible to correctly time the markets. To successfully time the markets, one would have to be correct not once but twice; right on when to lighten up and right on when to get back in.

A rapid selloff can happen without warning. This most recent experience reinforces the fact that you must always be ready by maintaining the right portfolio at all times.

A Time to Shine

A time of adversity is a time for Mendham Capital to shine.

We will continue to work hard, stay in touch and provide the best possible information and advice.

Our office remains open, and we are always here for you. We also welcome referrals of family members, friends or colleagues in need of assistance at this time. Many thanks for all of the wonderful people you have sent to us over the years!

We have looked back at the aftermath of past crises. You will be comforted to know that, without exception, both our clients and our practice were substantially better off one, two and three years beyond the dramatic event.

Let's stick together and get the job done!

MCM Notes

It is fair to say that we have all been spending a great deal of time at the office and at home the last few weeks. There is nowhere else to go! Nonetheless we do have some notes to share.

Dan Long spent the last few weeks reading books, catching up on some of his favorite shows, running outside and even playing a round of golf. Of particular interest was "Outliers" by Malcolm Gladwell which examines factors leading to high levels of success. It is clear to all of us that Dan has embraced this message!

In spite of social distancing, it remains a high energy lifestyle for **Kerry Mellott**. She is putting in long days at the office and then rushing home to make sure son, Gavin, is getting outdoor activity and avoiding the pitfalls of too much screen time. A major milestone was reached this week as Gavin ditched his training wheels and began cycling on his own!

Recent times have been a déjà vu experience for **Bob Burke** as he has gone from empty nest back to full nest! College students, Erin and Matt are home completing the semester via online education. Sadly, Erin is missing out on all the fun of being a second semester senior. Son James continues to intern at MCM. He has aced all his exams and has been interviewing with asset management companies.

Hilary Fagnani attended the Raymond James Winter Symposium in February at headquarters in St Petersburg, Fla. The most valuable presentation was *Managing the Process of Retirement Income*, which focused on cash flow reserves, sequence of returns, spending policy, longevity oriented portfolio construction and dividend based investing. In addition, there were valuable sessions on Fixed Income and Equity Markets, Raymond James Technology and Washington Policy Updates.
Hilary made the most of her Florida time by visiting clients and friends in the Villages, Sarasota and Naples as well!

Bill Burke was able to get out and about before shelter in place took over in New Jersey. He also attended the Winter Symposium and has embraced some health and wellness techniques shared at the meeting. He also visited with clients and friends, and participated in an annual member/guest golf tournament, an event that is always great fun.

Thank you for your continued trust and support.

The pessimist sees difficulty in every opportunity. The optimist sees opportunity in every difficulty.

- **Winston Churchill**

Sincerely,

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