The Verdi View

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Newsletter – April 2020

Welcome to our quarterly newsletter. Below you will find our top Fast Facts, timely reminders, and life updates from the team. Feel free to pass along The Verdi View to your friends and family!

- **Q1:** At the end of the first quarter the S&P 500 Index was down -19.60% year to date while the DJIA was down -22.73% (source: Morningstar)

- **RISK REWARD:** One hundred dollars invested in t-bills in 1928 would have grown to around $2,080 by the end of 2019. That same $100 in the S&P 500 would have grown to more than **$500,000**. Risk and reward are attached at the hip. You can't expect to earn higher returns if you aren't willing to accept occasional losses and volatility. (Source: Ben Carlson, A Wealth of Common Sense)

- **HOW BIG?:** The US government is currently pondering how to put to use a 2 trillion dollar stimulus bill. A trillion is such a big number that it loses all meaning. Here's some context, one trillion seconds is **31,709 years.** (Source: Michael Batnick, Irrelevant Investor)

- **"TIME IN" vs. "TIMING"**: The split between "up" and "down" time periods for the S&P 500 from 1950 to the end of 2019, i.e., the last 70 years, as measured by: **Days:** 54% "up" and 46% "down"; **Months:** 60% up, 40% down; **Quarters:** 66% up, 34% down; **Years:** 73% up, 27% down; 5-Year Rolling Time Periods**:** 79% up, 21% down; and finally 10-Year Rolling Time Periods**:** 89% up, 11% down (source: BTN Research).

- **MULTIPLIER:** Senate Republicans announced on 3/19/20 a stimulus plan that includes $1,200 cash payments to taxpayers. If each taxpayer that received $1,200 had a "marginal propensity to consume" of 60%, the initial taxpayer would save $480 and spend $720, and then in turn the party that received the $720 would save $288 and spend $432, and the next party would save $173 and spend $259, and so on. Ultimately the original $1,200 cash payment would result in $1,800 of economic activity, i.e., $720 + $432 + $259 + . . . (source: BTN Research).

- **ALMOST INTEREST-FREE CASH:** The Federal Reserve implemented its 2nd emergency rate cut this month, Sunday 3/15/20, effectively pushing short-term interest rates to zero. At the latest emergency meeting, the Fed also cut the reserve requirement for thousands of US depository institutions to zero effective Thursday 3/26/20, i.e., permitting easier lending by banks (source: Federal Reserve).

- **RIGHT ON**: The morning after the S&P 500 closed at a bear market low of 677 on Monday 3/09/09, journalist John Authers wrote that "perhaps the greatest reason for hope (for the US stock market) at present is that almost all hope seems to have been lost." At the time of Authers' writing, the S&P 500 had fallen 55.2% (total return) over the previous 17 months (source: Financial Times).

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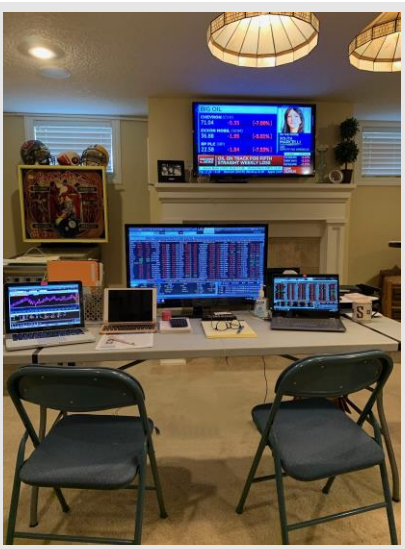
Team Update

In order to do our part, Baird requested all advisors practice social distancing by closing the office doors for 2 weeks and asking employees that are capable of working from home to do so. We are currently working with a skeleton team of only 3 staff members in the office each day to handle administrative needs for all clients. Sydney and I have been diligently working from my basement starting March 23rd. While these are not ideal conditions, we have persevered. We will continue to monitor portfolios and look for new opportunities created by this crisis. It has been nice to get to work by simply walking downstairs but we look forward to getting back to the office and meeting with our valued clients.

Joke of the quarter:

In the stock market today… Northern Tissue touched a new bottom and millions of investors were wiped clean



- **ELEVEN-YEARS:** In the first 4-years following its 3/09/09 bear market closing low, the S&P 500 gained +150% through 3/09/13 (i.e., total return result including the impact of reinvested dividends). In years 5-11 (i.e., the next 7 years) from 3/09/13 to Friday 3/06/20), the S&P has gained an additional +121% (source: BTN Research).

- **HALF AS MUCH:** The total return for the S&P 500 over its 11-year bull market (i.e., 3/10/09 through 3/06/20) is a gain of +16.8% per year (total return). If you missed the 20 best percentage gain days over the 11-year bull run (i.e., 20 days in total, not 20 days per year), the +16.8% annual gain is cut in half to an +8.5% annual gain. There were 2,768 trading days over the entire 11 years (source: BTN Research).

- **AT THE PUMP:** The national average price of gasoline has decreased for 23 consecutive days between Wednesday 2/26/20 and Friday 3/20/20, falling 30 cents a gallon to $2.17 a gallon (source: AAA).

Message from Joe

These are uncertain times which can be scary for investors. Having a plan can provide a peace of mind. We want to applaud our clients for remaining calm. The media often enhances investor fear invoking emotional reactions rather than rational long-term outlooks. Remember, no on can accurately time the market. To do so effectively, one must sell when things go bad and then buy back when they get even worse. That is a tough task and over my 26 years in this business I have yet to see it work.

Consider the following example from Movement Capital. You own a hotel near the beach and a bad storm is coming. You know business will slow down but are confident guests will return within the year. Are you going to sell the hotel before the storm? No. You know the long-term value of the business isn't impacted by a short term event. So why do investors chronically liquidate stocks at every market down turn? Because they can. The luxury of liquidity turns into a curse when people panic. We need to think like business owners not business renters when building our portfolios.

We want our clients to know that when we call to recommend any buy or sell of an investment we have already done our due diligence. That does not mean we googled it, saw a guest on CNBC, or read an article on Yahoo finance. It is much more extensive, and we commit significant parts of our days to making investment decisions. We are proud of the research, time, and effort we put into our recommendations and feel that this is why you choose to do business with us. While this is a great deal of work, we feel our clients deserve our best effort. Thank you all for choosing Sydney and I. These are tough times but together we can get through this

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