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Quarterly Economic Update

First Quarter 2020

Wealth House, LLC | John-Marc Berthoud | 630.780.1030

No one expected the longest bull market in history to see its demise brought on by a virus. While U.S. equity markets were able to withstand a trade war with China, a presidential impeachment, the potential for a global recession and global uncertainty including Brexit and civil wars in the Middle East, the U.S. economy was ambushed by a silent and highly contagious virus.

The first three months of 2020 were filled with Covid-19 fears and economic responses. The world is experiencing a pandemic and a financial crisis that caused many investors to feel a level of anxiety that they have not had for over a decade. It's almost impossible to remember that in Mid-February, equity markets were experiencing all-time, record highs. Now, we are in an unprecedented, event-driven bear market.

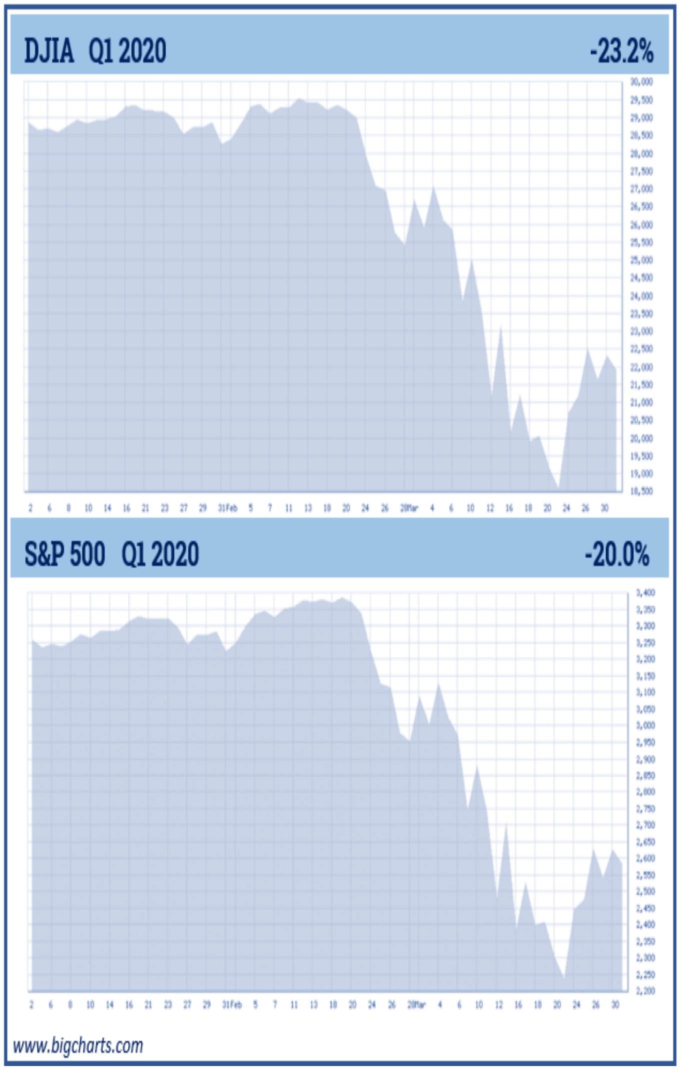
In the first quarter of 2020, more specifically, on March 12, the longest bull market in the history of the S&P 500 ended. This was the worst quarter for the Dow Jones Industrial Average (DJIA) since 1987 and its poorest first three-month start to the year ever.

The Dow Jones Industrial Average's decline of 23.2% for the quarter was its biggest since the 25.3% drop seen during the fourth quarter of 1987. The S&P 500 posted a 20% decline. Prior to this waterfall downturn, the stock market seemed unstoppable, with both the 122-year-old DJIA and the S&P 500 quadrupling earlier this year from their March 2009 lows. Many investors who remained vigilant and held their positions during that time were generously rewarded. In just a few weeks, the stock market experienced several firsts in its history including:

- In less than three weeks, the S&P 500 fell from a 52-week *high* to a 52-week *low*.
- The Bloomberg Barclays U.S. Corporate Bond Index lost more than 7% in a week.
- The New York Stock Exchange (NYSE) experienced its worst set of down days where 90% or more of NYSE-traded stocks closed lower for the day.
- The S&P 500 hit the circuit breaker and triggered a trading halt four times.
- The Nasdaq Composite Index suffered its largest one-day percentage decline ever.
- The Dow Jones Industrial Average posted its biggest weekly gain since 1938.

(Sources: marketwatch.com 3/16/20, WSJ 3/27/2020)

An 11-year bull market has changed into one of the quickest bear markets of all-times. Not only is the world trying to stop the spread of a highly contagious virus, but it is also scrambling to fix the disruption of global supply chains and the decline of consumer demand.



MONEY RATES (as posted in Barron's 4/6/2020)		
	LATEST WEEK	YR AGO
Fed Funds Rate (Avg. weekly auction -c)	0.09%	2.42%
Bank Money Market -z	0.16%	0.23%
12-month Cert -z	0.46%	0.97%

c- Annualized yields, adjusted for constant maturity, reported by the Fed Reserve on a weekly average basis. z – Bankrate.com (Source: Barron's; bankrate.com)

Interest Rates Are Still in the Spotlight

After lowering the federal funds rate by a half-point to a range of 1.0% to 1.25% in between its regularly scheduled meetings, as a response to the risks the COVID-19 coronavirus outbreak was creating, the Federal Reserve cut its benchmark interest rate in mid-March by a full 1% to 0%-0.25%. When the Fed first started reducing interest rates, many experts noted that the central bank was "catching up" to where markets had headed. Now, it seems as if they are responding to both the economy and the fact that the 10-year Treasury had fallen to all-time lows.

The all-time low for the Fed Funds Rate is effectively zero. The Fed has only lowered their rate to a range of 0% to 0.25% twice: once during the financial crisis of 2008 and now in March of range of 0.75% to 1.0% in 2003. ***(Source: The Balance, 3/30/20)***

CNBC reported on April 1st that the, "10-year Treasury yield falls to 0.6% as the coronavirus crisis deepens." With interest rates at or near all-time lows, many investors cannot generate income or meet their long-term goals with a full portfolio of cash and bonds. ***(Source: CNBC, 4/1/20)***

Oil Prices

Oil prices suffered an extremely rough stretch this quarter. As if things were not bad enough, the oil price war between Saudi Arabia and Russia, which emerged suddenly and dramatically on March 7, compounded the already ultra-bearish demand backdrop. The Saudi Arabia and Russia oil price war resulted in a massive price drop on March 8, 2020, when U.S. oil prices fell by 34% and crude oil fell by 26%. ***(Source: CNN.com; 3/8/2020)***

The Coronavirus' impact on oil consumption is unlike anything in modern history. Governments continue to impose flight restrictions and other travel bans, enforce lockdowns, and require non-essential businesses to close doors. Numerous school closures also mean many fewer buses and cars will be on the roads. As the quarter closed, there was pressure on the president to step in and assist in resolving the price war. Oil prices saw the worst month and quarter in oil price history down over 50%. With energy companies and oil still being a contributing factor to the overall economy, oil prices are a topic we are keeping a watchful eye on. ***(Source: Washington Post, 4/2/20)***

The CARES Act

The government is trying to help businesses and prevent the threat of a recession through the $2.2 trillion-dollar Coronavirus Aid, Relief, and Economic Security (CARES) Act. This emergency relief package, the largest economic-relief package in U.S. history, included: **Extensions of unemployment benefits, $150B** for state and local governments, **$500B** in general corporate aid, **$350B** in small-business loans that will be facilitated by community banks, **$100B** for the healthcare system and **Direct payments to individuals:** Individuals can receive up to a maximum of $1,200 per person ($2,400 per couple) depending upon their income.

The estimates for the total monetary and fiscal output to manage this crisis is $4 trillion, according to Jurrien Timmer, Director of Global Macro for Fidelity Management and Research Company.

Key Points For Investors

1 **Your health is your first priority!**

2 **Federal funds rates were reduced to 0 - 0.25%.**

3 **Oil price wars between Saudi Arabia and Russia continue to affect equity markets.**

4 **Government assistance was made available to help counteract the impact of this crisis.**

5 **Covid-19 pandemic could have significant ripple effects on the global economy.**

6 **Proceed with caution!**

7 **We are now in a bear market, ending the longest bull market on record.**

8 **Focus on your *personal goals* and call us with any concerns.**

So far there is a strong response from the U.S. Government, which will need time to see if it produces results. ***(Source: fidelity.com, 3/23/20)***

A Brief Lesson in Some Market Terms

Oftentimes, we hear the wrong words used in the wrong context. For educational purposes, we feel it is important to clarify some stock market words and their definitions.

"Dip" - a short-lived downturn from a sustained longer-term uptrend.

"Correction" - a 10% drop in the market from recent highs. Historically corrections occur an average of about every eight to 12 months and last about 54 days. (***Source:thebalance.com 3/9/20)***

"Bear Market" - a long, sustained decline in the stock market. If the market declines 20% from the its recent high, this is considered the start of a bear market.

"Crash" - a sudden and dramatic drop in stock prices, often on a single day or week. Crashes are rare, but typically happen after a long-term uptrend in the market.

Bear Market Basics

Bear Market's Most Basic Principle: Bear markets are a part of the investing experience. Many people believe that a bull market means a steady growth in equities. This is not the case. During this most recent, long-standing bull market, there were 13 corrections and the market moved down intraday into bear market territory (down at least 20%) three times. ***(Source: www.fidelity.com)***

We have now entered into a bear market territory (a close of 20% down) so it might be helpful to review some information about bear markets.

Bear markets can be classified into one of three categories: structural; cyclical; and event-driven.

Goldman Sachs analyzed bear markets back to 1835. They defined these three markets as follows:

1. **Structural:** bear markets created by imbalances and financial bubbles, very often followed by a price shock such as deflation. The markets have an average drop of 57%.

2. **Cyclical:** bear markets that are typically a function of the economic cycle, marked by rising interest rates, impending recessions and falls in profits. These markets have an average drop of 31%.

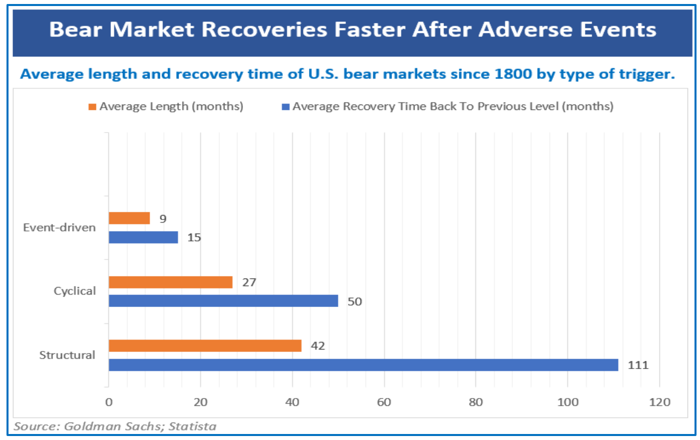
3. **Event-driven:** bear markets created by events such as war, an oil price shock, an emerging-market crisis, or like most recently, a sudden viral pandemic (Covid-19).

We are currently in an "event-driven" bear market. These are the bear markets that are hardest if not impossible to forecast or navigate. Covid-19 created a first of its kind bear market, one that was caused by a virus. We have had event-driven bear markets, but none were created by a viral pandemic. According to Goldman Sachs Chief Global Equity Strategist Peter Oppenheimer, "event-driven " bear markets, on average, result in lower declines than the other two types, and historically have lasted shorter. This unusual downturn is one that offers no easy outcomes. ***(Source: marketwatch.com 3/11/20)***

How should investors think about this downturn and what should they do?

Investors generally hope that equity markets will go up. The volatility and turbulence of this current economic and political environment has caused even some of the most seasoned investors to become skittish. In March, legendary investor Warren Buffett said that he hadn't seen anything like the coronavirus pandemic. "If you stick around long enough, you'll see everything in markets," he told Yahoo Finance. "And it may have taken me to 89 years of age to throw this one into the experience."

Since that statement, it's become even more confusing as infections mount around the world and the stock market continues to spin out of control in both directions. Many investors are trying to compare their portfolio's performance during this difficult period. So how did the Berkshire Hathaway leader perform?



"While Buffett is well known for weathering the worst market downturns and coming out stronger, the last several weeks have been just as painful on his portfolio as it has on the broader market," Bespoke explained in a post noting that the average stocks in his top holdings on March 24th were down 37% from their February highs. Perhaps the most important thing to think about is that like everybody else, his portfolio obviously hasn't been immune to all this volatility. ***(Source: MarketWatch.com, 3/27/20)***

The chart in this report shares that the six biggest point declines and the six biggest point increases in the Dow Jones Industrial Average (DJIA) all came in the last five weeks of this quarter. On March 12th, the DJIA fell 2,352 points which was over 9%. Had you sold that day you missed the next day's (March 13th) rise of 1,985, also a move of over 9%. This level of volatility is unprecedented and therefore even the savviest of investors needs to **PROCEED WITH CAUTION!**

Helpful Strategies for Investors

Revisit Your Personal Objectives - First and foremost, we continue to urge you to ask yourself four questions:

1. ***Have my financial timelines changed?***
2. ***Have my financial goals changed?***
3. ***Has my risk tolerance changed?***
4. ***Are there any changes my advisor needs to know about my situation?***

Think Long-Term -Investing involves uncertainty and therefore investors should consider using long time horizons.

Six Largest One-day Point Gains and Losses in DJIA History (as of March 30, 2020)

GAINS			LOSSES		
Date	Change	% Change	Date	Change	% Change
March 24, 2020	+2,112.98	+11.37	March 16, 2020	-2,997.10	-12.93
March 13, 2020	+1,985.00	+9.36	March 12, 2020	-2,352.60	-9.99
March 26, 2020	+1,351.62	+6.38	March 9, 2020	-2,013.76	-7.79
March 3, 2020	+1,293.96	+5.09	March 11, 2020	-1,464.94	-5.86
March 4, 2020	+1,173.45	+4.53	March 18, 2020	-1,338.46	-6.30
March 10, 2020	+1,167.14	+4.89	February 27, 2020	-1,190.95	-4.42

Source: seekingalpha.com

Look into Rebalancing **-** Maintaining a properly designed and well-diversified portfolio is important. Now is a good time to take a look at your portfolio and consider any rebalancing that may need to be performed.

Suspend Distributions **-** If you are comfortable with suspending distributions and looking for a potentially better time to take them, please call us at we can see if this strategy works for your personal situation.

Consider Roth IRA Conversions **-** There are many reasons to consider Roth IRA conversions. For most retirement accounts with equities, account values are down. This can create opportunities, especially for those investors currently in the 12%, 22% and 24% tax brackets. Add in the new SECURE Act's changes to inherited IRAs and it becomes even more prudent to consider the pros and cons of a Roth IRA conversion. Roth Conversions have some complicated rules and guidelines, therefore, as always, first discuss this option with us and your tax preparer to see if they are a good fit for your financial goals.

Think Rationally, Not Emotionally -One of Sir John Templeton's "Rule's for Investment Success" is, "Do not be fearful or negative too often." Market turbulence should remind us that it is a good idea to re-evaluate instead of panic.

Tune Out Media Magnification and Seek the Help of a Professional - One of our primary goals is to make sure you are comfortable with your investments. We will always consider your feelings about risk and the markets and review your unique financial situation when making recommendations.

We pride ourselves in offering:

- consistent and strong communication,
- a schedule of regular client meetings, and
- continuing education for every member of our team on the issues that affect our clients.

A skilled financial professional can help make your journey easier. **We care about our clients and we are here for you. Our goal is to be prepared, not scared! If you feel we need to talk, please call. We are honored that you have chosen us to help with your financial needs.**

Could it get worse, or will it get better? How long will this last?

We know these are many investors primary questions. A large part of the answers will depend on when the growth rate of Covid-19 cases stabilizes and how quickly a cure can be developed and distributed. It will also depend on whether or not fiscal and monetary emergency measures are enough to help ease the economic crisis. While we are not clairvoyant, we are making our best efforts to stay aware of changes that could affect your personal situation. Our objective is to try to offer the most educated guidance to help keep you on track with your financial goals. We realize that this is a very emotionally straining time and we want to make sure you know we are here for you. Call us with any questions or help with any concerns you may have.

Panic and bad choices can cause more harm for investors than a virus or market downturn!

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"The first wealth is HEALTH." – Ralph Waldo Emerson