DIXON, HUBARD, FEINOUR & BROWN, INC. investment counsel

First Quarter 2020 Review & Outlook
by Whitney Brown

Also in This Issue

INVESTMENT OUTLOOK

- Pandemic upends financial markets.
- Federal Reserve moves quickly to ease liquidity and credit concerns.
- Congress passes $2.2 trillion economic stabilization act.
- Equity markets enter bottoming phase.

The coronavirus pandemic sweeping the globe has exacted a growing human toll, shaken economies, and introduced high anxiety into the mundane activities of living. Fighting its spread has brought much of daily life to a crawl. The progression of the virus and how to stop it have consumed the world's attention. Three months ago we were noting how pleased investors were with the robust market returns of 2019 and how the Federal Reserve, U.S.-China trade frictions, and the economy seemed to be on a more or less even keel. Equities were overvalued by many measures but not grossly, and it is true that investor sentiment was very optimistic at that time.

The external shock of the pandemic was largely unforeseen and seemed to hit home when Italy, Iran, and Seattle emerged as early hot spots spreading the virus beyond China. Equity markets have endured one of the fastest falls into bear market territory on record. What started in late February as growing concern that the virus would impact global commerce grew to become a rush for the exits as institutional traders, leveraged investors, hedge funds, and the like rushed to liquidate, at any price, various holdings including stocks, bonds, exchange traded funds, and other securities. In the midst of the virus-driven selloff Saudi Arabia declared an oil price war against Russia leaving U.S. shale and other global oil producers caught in the crossfire. The steep drop in oil prices and the impact on related industries served to compound the selling. The high volatility demonstrated by huge day-to-day market swings was magnified by computer-driven or algorithmic trading.

Market Measures	1st QTR	
S & P 500 (price)	-20.0%	
Dow Jones Industrial Average	-23.2%	
NASDAQ Composite	-14.2%	
Russell 2000	-30.9%	
MSCI EAFE	-23.4%	
Barclays Capital Inter Gov't/Credit Bond Index	+2.4%	
	3/31/20	3/31/19
10-Year U.S. Treasury Bond Yield	0.67%	2.41%
Three-month U.S. Treasury Bill Yield	0.10%	2.39%

Under Chairman Jerome Powell's leadership the Federal Reserve has been instrumental in calming markets. Having learned the hard lessons of delayed action in the 2008-2009 financial crisis, the Fed recognized the looming economic threat and stepped in quickly with two emergency interest rate cuts. They have followed up decisively with a return to bond buying known as quantitative easing and revival of several credit facilities first used in the financial crisis. They have created new lending programs that position them as the lender of last resort not just for banks but for businesses as well. The Fed's goal is to provide ample liquidity in the economy and keep credit markets functioning smoothly.

The more they can do to ensure businesses' access to credit the better the productive capacity of the economy can be preserved to get activity back to more normal levels as soon as it becomes safe to do so. The $2.2 trillion CARES Act passed by Congress and signed by the President will go a long way toward helping stabilize the economy in the near term as it grapples with the effects of essentially being put to sleep for a few months. Its focus on enhanced unemployment benefits for workers and access to forgivable loans for small businesses that retain employees should help keep families out of poverty until the economy can get back to work.

The crisis low for the market most likely occurred on March 23 following what is referred to as a waterfall decline, when the selling is intense and persistent over a period of weeks with the market unable to rally for more than a day or two at a time. What follows will likely be a series of rallies and pullbacks as the virus news ebbs and flows and investors react to economic data and corporate earnings releases. The bottoming process for a major bear market usually involves testing, perhaps multiple times, of the crisis low before the market can begin a sustainable new uptrend. A test or subsequent retest could undercut the crisis low but would come on much less intense volume and with fewer stocks participating on the downside than during the waterfall

(Continued on page 2)

Practical Applications and Social Distancing by Bob Martin

Self-quarantining, sheltering in place, social distancing—who knew!!!

We are all adapting to the newer practice of social distancing and sheltering in place. As we adjust to a more isolated way of living, we are learning from our own personal experiences, and from our clients, some helpful ideas to share with everyone.

Delivery—restaurants, grocery stores, drug stores, and other retailers have made delivery services easier and easier to adopt. We have the ability to go online, establish a sign-on, and receive deliveries for many of our weekly needs. Jonathon Grace in our office has started receiving grocery deliveries from Kroger. The website is very user friendly, and it is easy to find most of the items you normally purchase. Be aware that Kroger and others can run out of items between the time you place an order and when the items are prepared for delivery. In those instances, by setting your online preferences to be notified immediately via text or email, you can know what items may not be available and request substitutions. In the Roanoke area, delivery services are being offered by grocers Kroger, Food Lion, Fresh Market, and Aldi and drugstores CVS, Walmart and Walgreens; with increased demand, expect 3 to 4 days for a delivery.

Curbside pick-up—if you need items more quickly, more and more companies are offering "pick-up" options (you go inside) for items ordered online and more recently have adapted to curbside pick-up (you stay in your car). Whitney Brown has used Target at Valley View numerous times now. Once you set up your account online, you place your order and indicate that you will "drive-up" when it is ready. Their website instructs the user that orders can take 4 hours to be filled, but we found that orders were ready sooner. Using your phone, you can notify them when you are "on your way" and again when you "have arrived"; you need to park in a designated, well-marked area in front of the store. In about 5 minutes, they are bringing the items to your car and loading them. Target does not offer same-day delivery in Roanoke as of the date of this article but will deliver items as well. It is worth noting that numerous restaurants have adopted curb-side as an option; check the website of your favorite restaurant to see if it is offered.

Senior Shopping Times— Many stores are setting aside specific hours for seniors (age differs by store) and at risk customers (pregnant women and first responders) to shop. Days and hours are subject to change, so please check ahead of your visit. Kroger, Walmart, Walgreens, Sam's Club, Aldi and Target are some of the stores offering this service.

FaceTime, Facebook Messenger, Zoom, and Skype—most clients are aware of these free services but many are starting to use more readily to stay connected to local family and friends. My mother lives at Brandon Oaks; we have used FaceTime to video chat with her. Brandon Oaks has also started using Zoom to create more social connectivity as its members live in isolation. If you haven't taken advantage of this technology, ask a family member (the younger the better) to get you started.

While you are stuck at home learning a new language, reading a book per day, and reorganizing things, it is worth mentioning that this is an excellent time to update your financial planning and financial records. For records, we recommend creating a financial notebook for all of your critical documents and records. And financial planning is offered by our team at Dixon, Hubard, Feinour, & Brown; we would welcome any opportunity to support you and your family. Also, make sure that we have your current contact information, such as phone numbers and email addresses, so that we may better serve you in this environment.

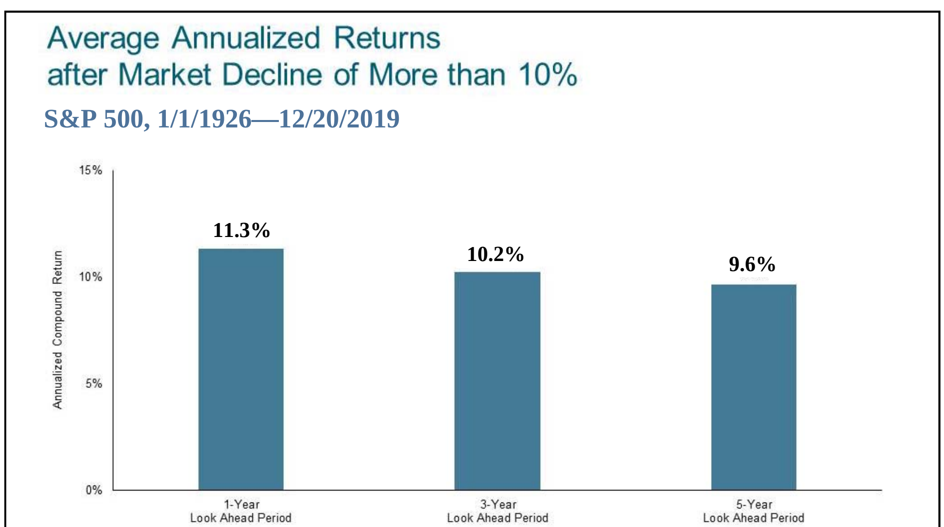
In conclusion, it is clear that this surreal period will have a permanent impact on some industries and create new products, services and technologies. As we see more widespread adoption of various services and technologies, it will create new opportunities for investing and further wealth-building. We look forward to sharing those ideas with you and supporting your financial success.

First Quarter 2020 Review and Outlook (continued)

(Continued from page 1)

decline to the crisis low. This implies an advantage for active equity management over passive market indexing strategies.

The virus will run its course. The economy will endure. Markets are forward looking, and through the bottoming process markets will see ahead to better times. It is important to remember that bull markets follow bear markets, and the best returns in bull markets usually come in the earliest stages. As challenging as it can be to ride it out, it pays for long-term investors to stay in the game. Typically within a year following crisis driven declines, markets will enjoy double-digit positive returns. *Please see the chart at right and the related article on page 3.*



In US dollars. Past performance is no guarantee of future results. Declines are defined as months ending with the market below the previous market high by at least 10%.

Investment Accounts Remain Accessible During Unusual Times by Jim Hall

During these unprecedented times of intense market turmoil resulting from the spread of COVID-19, we have followed the same medical guidelines as the rest of the country and have reduced our frequent face-to-face contact with our clients in an effort to curb the spread of the virus. For now, some of us are working from home while the rest of us are maintaining our "social-distancing" in the office. However, you may rest assured we remain fully engaged and are continuing to actively manage accounts for all of our clients. Where applicable, we have increased the required levels of cash to continue funding any recurring distributions for those who require automatic transfers for living expenses.

You may have seen video and pictures from the streets in NYC that reflect little activity. It is strange to see only a few people moving about and practically no traffic. For us, it is equally odd not seeing the usual hustle and bustle and shouts of traders on floor of the NYSE. The floor has been temporarily closed to prevent the further spread of the virus among the traders. Despite this, markets remain open and have continued to operate in an unimpeded manner. Accounts remain accessible to owners. Trades are occurring electronically and are still executed quickly. Even though there was no intention to stress-test the trading system, these recent weeks have been marked by huge daily trading volumes and sometimes exaggerated daily percentage swings in prices. Still, the trading system is working just as it always has.

Locally, we continue to make and receive calls throughout each day and evening. Our individual desk voice-mail system is now tied to our email and will alert us when a voice mail has been received at our desk phone. We have become proficient at conducting our meetings utilizing video and conference calls. We still meet very frequently to view charts, discuss market trends, and assess how they might affect our clients' equity positions. In the event our state imposes further restrictions and lockdowns in an effort to slow the spread of the virus, we all now have laptop computers at home that are linked to the office and will allow us to fully perform our work remotely. We are able to send and receive email, view and discuss accounts, initiate transfers, execute trades and perform market research. You may use the following numbers to contact us. If we do not answer, please leave us a voice message and we will return your call.

Whitney Brown	brown@dhfb.com	**540-682-7411**
Ted Feinour	feinour@dhfb.com	**540-682-7412**
Stebbins Hubard	hubard@dhfb.com	**540-682-7413**
Bob Martin	martin@dhfb.com	**540-682-7418**
Jim Hall	hall@dhfb.com	**540-682-7416**
Jonathon Grace	grace@dhfb.com	**540-682-7415**

In volatile times it is often a good idea to revisit your investment goals and plans; we would welcome an opportunity to review and discuss any changes that may be appropriate.

Emotional Investing is Risky by Jim Hall

The 1st Quarter of 2020 has been unprecedented for investors. After enjoying a particularly strong performance throughout 2019, we continued to see new market highs until mid-February, 2020. By the 3rd week of March we were experiencing markets trading down to levels not seen in four years. Times like these will try the resolve, patience, and understanding of any investor. Especially considering we were still in the midst of a vibrant long-term bull market in January and February where the market bias was mostly upward and the prices of many companies seemed to be touching new highs almost daily. As soon as the grim realities of the unmitigated spread of Coronavirus became apparent, the market quickly shifted direction and we experienced a sharp sell-off as equities were being converted to cash in an effort to preserve value.

For many investors, it can be quite tempting to follow the herd mentality and sell everything ignoring any capital gain tax implications as cash suddenly becomes the preferred asset. That feeling may often be amplified by the news media who will seize on the most shocking headline and focus on that headline throughout their entire dialog. "Stocks sell off and drive Dow down 1800 points" will certainly grab attention and cause a feeling of angst. It is sometimes easy to forget the long-term focus and goals and instead be consumed by the immediate news.

After selling, the thought then becomes "I'll buy back in at the bottom and make my money grow again." Unfortunately, the market doesn't provide any "green light/red light" notice of the correct times to buy to

(Continued on page 4)

Emotional Investing is Risky (continued)

(Continued from page 3)

catch a run or signal the perfect time to exit to avoid any sell-offs. In fact, after a sell-off, the market will generally start its turnaround long before the headlines turn positive.

Index Fund Advisors recently published an article that drives home the risk associated with the market timing idea. They compiled data over the past 20 years from 1-1-2000 through 12-31-2019. The supposition was $10,000 was invested in a total market fund on day 1. With no further buying or selling during the **5,035** trading days, the account would have grown to $32,192. If market timing was successfully implemented but the 5 largest daily gains were missed, the account only grew to $21,359. Missing just the 10 largest daily gains yielded $16,122 and missing only the 20 largest daily gains barely broke even at $10,145.

Most clients have a "balanced" account containing a mix of stocks, bonds, and cash. Generally, when there is a sell-off in equities, bond values will serve to cushion some of the swoon as bond prices generally increase or remain stable when stock prices fall. We base our allocation according to the needs and time horizon of each client. The idea is to allocate enough cash and/or short-term investments to handle any near-term needs for cash so any market declines can be endured without participating in any "panic" selling.

If these recent market gyrations have caused sleepless nights and you would like to have a discussion about markets, future cash needs or any other planning, please let us know.