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April 1, 2020

“Unprecedented” and “Pandemic”. Two words we have used more in the last two months than in any other period of our lives. This is a first quarter that none of us will ever forget. The financial crisis in 2008 took 15 months to unfold. Month after month, we watched the market experience a “death by a thousand cuts”, and it lasted for almost a year and a half. This Bear Market decline happened in weeks, with volatility never seen by most of those investing in this stock market.

The Dow Jones Industrial Average fell 23.2% in the first quarter of 2020. It is the worst first quarter in the history of the index. That is going back 135 years. It is also the worst since the fourth quarter of 1987, which included Black Monday. That was a 22% decline in one day. These are records we really do not want to break.

Federal and State governments have been forced to put our economy into a recession in order to save lives. Normally, recession is a part of the economic cycle and is brought on by financial conditions. It has never been forced onto a thriving economy to address a medical problem. This time, it really is different. One silver lining may be that the market tends to revert to the mean, and bad quarters are usually followed by better quarters ahead. Evie Liu of Barron’s noted, “The [Dow] rose by an average of 5.4% in the three months following its 10 worst quarters. It was an average of 10.5% higher a year later.”

You may have already seen activity in your portfolio. We are taking this opportunity to rebalance and upgrade the quality of the things we own, if possible. We want to get through this storm and come out of it owning the best available holdings. This is not a time to have a shaky balance sheet or be in a supply chain dependent business. When the overall market sells off, it creates opportunities to own things that are normally too expensive relative to their earnings to consider. We like to be greedy when others are fearful. And we are feeling very greedy right now.

This is also an opportunity to review the financial plan we created when we began the process of working together. The stress tests we run are very helpful when those scenarios become reality, and we need to gauge how we are doing and whether the long-term success of the plan is in jeopardy. Many times, it can be reassuring to check in and walk through that process again. If we have not had that opportunity yet, please give us a call, and we will make it happen.

As to where we go from here, I continue to believe we will see a “W” pattern to the market when we look back on this period. The first leg of the formation is “\”. This is the initial shock and fear that caused a drop of 35% from the high. Fear of the economic and health consequences of Covid-19. This was followed by “/”, which came with the promise of the rescue package that was signed into law on March 27, 2020. Now, the market must digest the near-term benefits and long-term consequences of the package along with the continued increase in new Covid-19 cases and sadly, deaths. This will likely take 2 months, and it will be very painful. It would not surprise me if we saw “\” again and tested the lows. This would form a solid base for the market and confirm we had hit the low of this pullback. Then comes a flattening of the curve

and social distancing starting to be reduced. A return to normalcy, or the new normal. About six months before that starts to be evident, we will see “/”. The market is always looking six months ahead and will show strength and start moving up before the bad news ends.

It is impossible for all of us here to express our gratitude for you, our Client. We know, deeply, the trust and confidence you place in us to manage your assets, to help you navigate the financial landscape and to achieve the goals of your financial plan. Thank you, sincerely, for allowing us to be of help to you. We may not be coming into the office now, but we start each day with purpose and spend our time providing the same level of service we always have. That will not change, and we will look forward to the next opportunity we have to share a meal or meet at the conference table in the office and connect with you in person. Better days are ahead, and we will do our best to get you through this and come out better off than you were before.

One housekeeping item: This is the time of year that we make our annual Form ADV offer to you. This is the form we file with the SEC that discloses all our business practices. We are required to offer it once per year by the SEC. This is the official offer. For those of you that use the web portal, we have posted it there, so you do not need to ask. For those of you that do not use the portal, please let us know if you would like us to send you a copy.

Again, thank you for allowing us to be of help to you. Please let us know if there is anything we can do to be of further assistance. Stay home and stay safe!



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