Addis Hill

CLIENT BRIEF

3.16.20: Open, but remote.

We have decided to work from home during the next couple of weeks to do our small part in taming the spread of the Coronavirus. Each of us has a laptop with technology that allows us to fully operate as if we are in the office for the time being. Our phone system delivers voice messages directly to our email inbox. So, please feel free to contact us as you normally would. We won't miss a beat!

In addition, we have decided to suspend face-to-face meetings in our office. However, we have the ability to hold a meeting on-line if necessary, a technology we have been using for years now.

We ask for your patience during this crazy time. We are doing our best to operate normally. Please feel free to contact us if you need anything at all. Thank you.

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3.13.20: Congratulations!

Together, we made it through one of the wildest weeks on Wall Street EVER. Whew - time to take a deep breath! Here's a few random thoughts to try to help provide some perspective:

1. You didn't lose anything if you didn't sell any of your investments on emotion. Was it tempting, indeed it was. But, we are so pleased how Addis Hill clients in particular rolled with the punches. And there were several real gut punches! We have all been through this before and have learned how important it is to not react to all the noise around you and stay invested in your diversified portfolio.
2. You learned the importance of diversification. You have bonds and other asset classes to balance out the risks of stocks. Some have provided relief, some haven't. But, they will probably all respond differently the next time a crisis rolls around. Unfortunately, we don't know what's coming next, which is why a broad allocation is so important. But, major events coming out of nowhere have always been part of life and always will.
3. For most clients, we have been rebalancing out of stocks as they have been rising over the past ten years and into other areas of the market as you have made investments and/or taken withdrawals. Diligence around rebalancing keeps your portfolio in check and provides needed down market protection.
4. Most people just pay attention to the stock market. But, sometimes you can take clues about what's coming next from the bond market. This week was a perfect example. Late last week and early this week the fluctuations in the bond market were severe. The 10 year treasury yield dropped under .50% - unheard of, but, not surprising as the price of bonds were driven higher by the flight of investors to safety. But, by mid-week the bond market settled down and did not react as wildly to bad news. Does that mean the end to volatility in the coming weeks? No. But, could it mean we have reached capitulation - the point at which the market surrenders and usually indicates the bottom of the market is near? Perhaps. Could Mr. Market be saying he anticipates better news to come? Next week will be interesting…
5. We were on solid economic footing just two weeks ago! If you will remember back to the financial crisis, our entire financial system was close to complete collapse. Not so this time. Our banks and corporations are very healthy and strong and there is much liquidity in the system to keep things going. Once the tide turns as it seems to have in China, we will likely rebound quickly as the world comes back on line and pent up demand for goods and services are met. What a great lesson for young

people today about our economic system!

6. Tax-loss harvesting during ugly markets can help lower taxes in future tax years by using what you harvested to offset future capital gains as long as you pay attention to the wash sale rules and don't buy the same type of security. For example, you wouldn't want to trade a large cap mutual fund for a large cap mutual fund.
7. Let your financial plan guide you! A good financial advisor will use software that assumes that bad markets will come along every now and then. Stress testing your portfolio AND using conservative returns and other assumptions can be the difference between success and running out of money. Talk to your advisor about the impact of the recent market volatility on your long-term plan. Chances are if they used a conservative methodology, this will end up being a small blip on the screen!
8. We are all in this together! Everyone around the world is banning together to stomp out the Coronavirus! We all must do our small part in the next couple of weeks to get it under control so that we can get back to the life we love. Usually we come out of crisis better on the other side. In this case, perhaps our healthcare system will be better prepared the next time a worldwide pandemic strikes.

Take the next two weeks to enjoy stepping out of the routine of everyday American life. Spend quality time with your family. Have some fun. Get some projects done that you haven't been able to get to for a while. Work on your taxes. And don't forget to breathe! Things will eventually get better.

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3.12.20: Tax-loss Harvesting Time!

When bad things happen, sometimes you can make lemonade out of lemons. In the investment advisory business we call this tax-loss harvesting when a bad market strikes. Tax-loss harvesting is when you sell a security that has gone down in value to capture the loss. That loss can be used in the future to offset capital gains to lower your income tax bill. But, you have to be careful to avoid the wash sale rules and buy a dissimilar security. We are still using losses we captured from the 2008/2009 financial crisis to this day. We just wanted you to know that we are examining every non-retirement account for any meaningful opportunity to lower your tax bill in future tax years using this strategy and we will inform you if your account has been identified.

If you would like any information on tax-loss harvesting or on the wash sale rules, please let us know.

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CLIENT BRIEF

3.10.20: What's Next

The Dow dropped 2000 points yesterday – the largest single day loss since 2008. And, on top of that, oil posted its biggest loss in over thirty years! Clearly, investors are worried about what lies ahead for the world economy due to the Coronavirus outbreak. Could the virus send the world economy into a recession? Yes, as a result of some countries in the world coming to a complete economic standstill as governments try to contain the spread of the virus. Prolonged recession? Likely not. After all, the US and world economy were in a solid place just two weeks ago before the panic set in.

It's anyone's guess what will happen today. But, now is not the time to react and guess. It's time to bear down and stay true to the diversified investment portfolio you have in place. Remember, the stock and bond markets moves are based on speculation and/or uncertainty about the future. Right now – stocks are down due to fear of an economic slowdown and bonds are up as people seek safety. The markets hate uncertainty. Consequently, we are stuck with the wild swings until it looks like the spread is lessoning or the vaccine/treatment is on its way.

Back in 2008/2009 we did not change one portfolio allocation for our clients in response to the financial crisis because we knew that our clients investments were diversified and reacting emotionally was not in your best interests. We stress tested financial plans with lower account values due to the declines and almost every client's financial plan was still successful. Why? Because we use conservative expectations of return inside each plan. We model for significant events in each financial plan because we know that sooner or later something negative like this is going to happen. Right now it's called Coronavirus. Tomorrow will bring something else. And on and on it will go.

Feel free to call if you have concerns, want to talk, or would like us to stress test your financial plan for an event like we are experiencing. We are here monitoring the situation if you need us.

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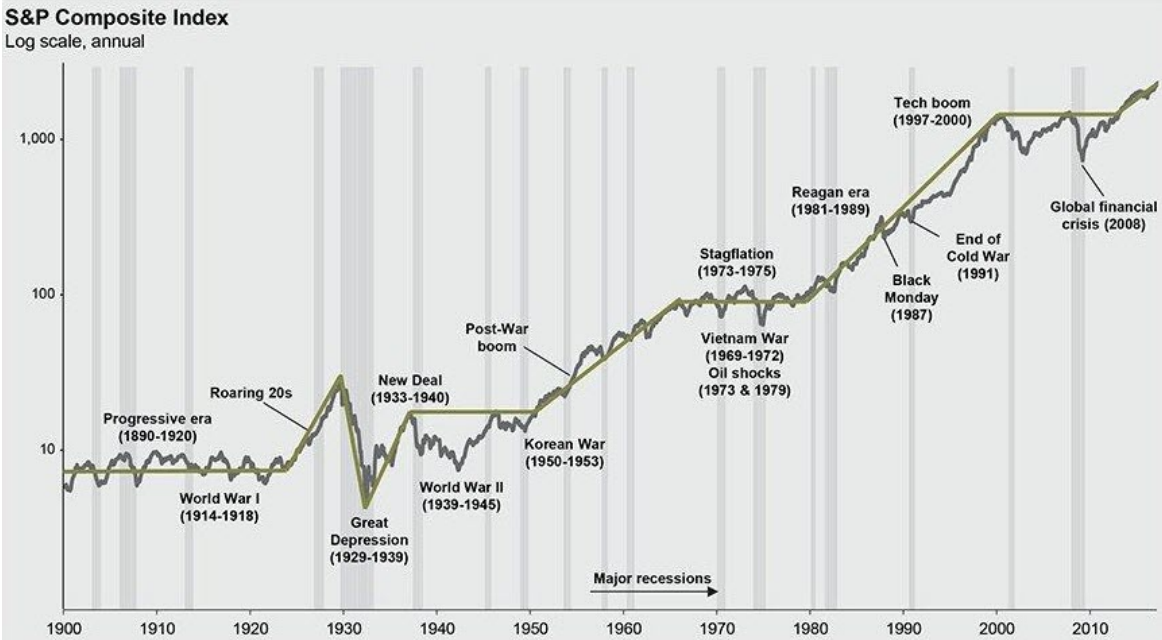
Market Reaction Charts

Click to enlarge.


S&P Composite Index
Log scale, annual
1,000
100
10
Tech boom
(1997-2000)
Reagan era
(1981-1989)
Global financial
crisis (2008)
End of
Cold War
(1991)
Stagflation
(1973-1975)
Black
Monday
(1987)
Post-War
boom
Vietnam War
(1969-1972)
Oil shocks
(1973 & 1979)
New Deal
(1933-1940)
Roaring 20s
Progressive era
(1890-1920)
Korean War
(1950-1953)
World War I
(1914-1918)
World War II
(1939-1945)
Great
Depression
(1929-1939)
Major recessions
1900
1910
1920
1930
1940
1950
1960
1970
1980
1990
2000
2010


Fears of global
economic slowdown,
rising interest rates
Q4 2018
S&P 500 all-time closing high:
2930.75 - 9/20/2018
Chinese stock markets
crash, crude oil plunges
mid-2015 to early-2016
S&P 500 closes above 2000
for the first time - 8/26/2014
'Volmageddon'
volatility erupts
Feb 2018
Fed begins rate hike path - Dec 2016
Donald Trump elected
president - 11/8/2016
European sovereign debt
crisis contagion fears
August 2011
UK's EU Referendum
(Brexit) - 6/23/2016
2010 'flash crash'
May 2010
President Barack Obama's
2nd term begins - 1/21/2013
U.S. Federal Government
credit rating downgraded
8/5/2011
Post-financial crisis S&P 500
closing low: 676.53 - 3/9/2009
S&P 500 (SPX): 2009-2019
Market Milestones
3200.00
3000.00
2800.00
2600.00
2400.00
2200.00
2000.00
1800.00
1600.00
1400.00
1200.00
1000.00
800.00
600.00
400.00
2009
2010
2011
2012
2013
2014
2015
2016
2017
2018
2019
2020