

March 13, 2020 Update

Dear Clients,

We understand the concern and uncertainty you are experiencing surrounding the coronavirus crisis that is of deep concern to all of us, both professionally and personally. We also understand that during this time of extreme market volatility, you have questions about your investments and what actions to take.

The equity markets have continued to decline in the first two weeks of March with the Dow Industrials and S&P 500 indexes year to date performance at -19% and -16% respectively in response to the progression of the Covid-19 virus. While we can offer no medical or disease expertise regarding the virus, we are working tirelessly to assess the evolving market climate and ensure portfolios are positioned to navigate the crisis and seek to deliver on their long term objectives. There are some timing aspects and market historical patterns that we can draw upon to help guide our decision-making process in the coming weeks. As has been demonstrated, markets do normalize and when they do, those who stay invested may benefit more than those who don't. Panic, short term market timing, and emotionally charged decision making, significantly hinder investment returns. We will continue to construct our strategy and portfolio revisions based on fundamental valuation criteria, to improve our portfolio composition and potential returns over an extended investment horizon.

Timing-wise the virus seems to reach a contained state in 2 to 3 months upon implementing large scale testing and extreme quarantine measures. This would put us most likely towards the end of April or May in the US to exhibit a declining growth rate or flat line in measurable cases. We do have an advantage in that we can draw upon the experience of other nations and implement best practices in advance. At present some of us are already working from home, schools have been closing, and sports and after school activities have been cancelled for the foreseeable future. This proactive self-isolation will go a long way in our containment efforts. The bad news regarding timing, as we discussed in our last communication, is that it will get worse before it gets better. There will be a large increase in those afflicted as has followed in previous outbreaks globally but our experience should follow the same timeline. As a forward indicator equity markets will begin to improve before the turn is evident.

Market-wise we have seen declines such as this for different reasons over the past few decades and all share one thing in common, they all end. Markets subsequently recover and reach new highs. It is unfortunately part of the rhythm and cycle of a market that it is driven by both mathematical science and emotion. The extent and duration of the current selloff will depend much upon investor psychology as well as the economic impact of the aforementioned isolation practices and supply chain disruptions. As this is most likely a temporary condition, we would expect the duration of the decline to be significantly shorter in nature as compared to the structural failure of the financial system in the crisis of 2008. As with other market crises, maintaining a prudent invested posture has proven to be the correct strategy. This does not preclude sales of directly impacted industries and companies, rebalancing, or the addition of positions at far reduced prices and valuations. The decline, although painful currently, does provide opportunity.

The current selloff has exhibited a pattern of indiscriminate programmed liquidation. Safe havens and high-quality leaders have been sold with abandon. We intend to patiently wait for the market to stabilize and begin to accumulate companies at prices that promise generous capital appreciation in the future recovery. We anticipate significant globally correlated stimulus measures to be enacted soon, calming investor fears and boosting confidence. Medically, there are several firms working on vaccines and if any are proven successful will quickly curtail the virus. The negative tone will swing positive.

Most importantly, take every precaution to protect yourself as well as your family, friends and loved ones, from any unnecessary possible exposure. Also, our business has robust continuity plans in place to help ensure the safety of our employees and avoid any disruption to our operations. Altering our behavior in the short term will be the most effective weapon to curtail the spreading of the virus.

In these tumultuous times we are always available to discuss any and all concerns. Please call if you are anxious and wish to review your investment strategy and risk tolerance considering recent events. We remain confident that the active investment process that has helped us steer investors through crises in the past will serve them well in this one.

Best regards,  
*Beech Hill Advisors*