BARNES · PETTEY
FINANCIAL ADVISORS, LLC
Independent Registered Investment Advisor

WOW- We Are Glad the 1st Quarter is Behind Us!!!

The first quarter is historical! It produced one of the fastest declines in market history!

It is one of very few quarters that all three months were negative!

Severe financial dysfunction, social distancing, health concerns for family, and record unemployment claims will not soon be forgotten.

In my almost five decades of financial planning and wealth management, I have lived through the oil embargo of 1973-1974, the 20% drop in October 1987, all of the decade of 2000 problems, but must admit how unique this quarter has been.

For a health epidemic to create this much market turmoil is most unique since the other market periods were marked by financial not health problems. We all wonder now if this health problem will become a financial problem!!! Economists are predicting 25 to 30% reductions in second quarter GDP so the question is “Has the stock market already taken this into account with its current pricing?”

We have all heard “Don’t fight the Fed”. When the Fed acts in the best interest of the economy, go with the “flow of the Fed”. The Fed has lowered the Fed funds rate, begun unlimited quantitative easing, and engaged in a host of “alphabet” soup programs to help offset the sharp economic correction.

We now are hearing “Don’t fight science”. Can’t the health companies of the world find a way to protect us from the virus?? I certainly think so – eventually!

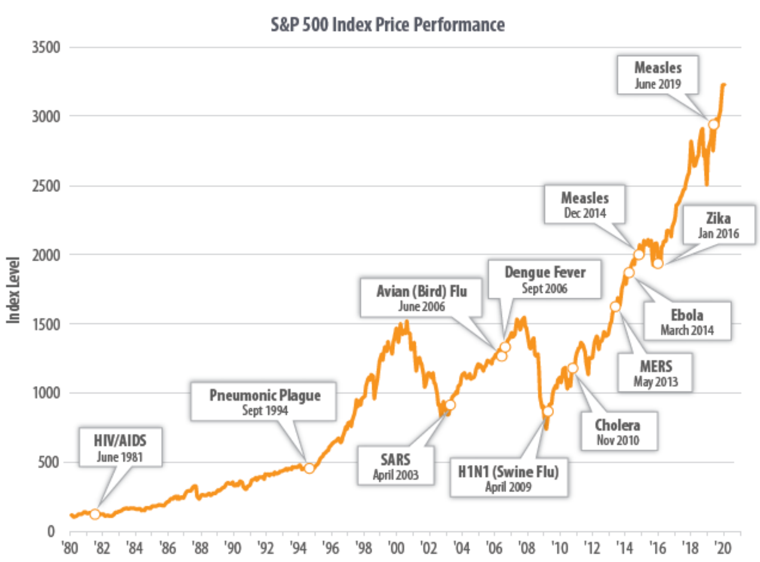
I had the pleasure of meeting John Templeton early in my career. He impressed me being a small town boy from Winchester Tennessee who managed billions for his clients. He exhibited humility and even though deceased for over a decade, still impacts our world through his Foundations annual gifts. He coined the phrase **“The point of maximum pessimism is the point of maximum opportunity.”** I do think we have seen several of these points in the last month and should be encouraged that markets are forming a bottom!! Our friends at Riverfront coined the phrase **“Beware of the crowd at extremes.”** If sentiment is so negative, can it be sustained or is it time for investors to start leaning in the other direction?

Epidemics and Stock Market Performance

Since 1980

First Trust

There are many factors that can impact stock market returns, but one concern of investors today is how the stock market will be impacted by a major epidemic or outbreak. Below we look at the historical performance of the S&P 500 Index during several epidemics over the past 40 years. We believe looking at the market's overall resiliency through several major epidemics can give us perspective on the benefits of investing for the long-term.



Epidemic	Date	S&P 500 6-Month % Change	S&P 500 12-Month % Change
HIV/AIDS	June 1981	-6.6%	-16.5%
Pneumonic Plague	Sept 1994	8.2%	26.3%
SARS	April 2003	14.6%	20.8%
Avian (Bird) Flu	June 2006	11.7%	18.4%
Dengue Fever	Sept 2006	6.4%	14.3%
H1N1 (Swine Flu)	April 2009	18.7%	36.0%
Cholera	Nov 2010	13.9%	5.6%
MERS	May 2013	10.7%	18.0%
Ebola	March 2014	5.3%	10.4%
Measles	Dec 2014	0.2%	-0.7%
Zika	Jan 2016	12.0%	17.5%
Measles	June 2019	9.8%	N/A*
Average Price Return		8.8%	13.6%

Observations

- **6-month** change of the S&P 500 Index following the start of the epidemic was positive in 11 of the 12 cases, with an average price return of 8.8%.
- **12-month** change of the S&P 500 Index following the start of the epidemic was positive in 9 of the 11 cases*, with an average price return of 13.6%.

COVID 19 Action Points

- Stay healthy – Continue to practice social distancing - this won't last much longer.
- Call us for a portfolio review – if you want to be more aggressive, make incremental buys or sells so that you can average in or out of the market. Large moves in or out are almost impossible to make correctly!
- If you are taking required distributions from your IRA or 401k and DON'T NEED THE INCOME, stop immediately. The Cares Act has postponed RMD's for 2020.
- Individuals now have until July 15, 2020 to file their 2019 tax returns. The Treasury Department also postponed the deadline for making IRA contributions until the date taxpayers file their 2019 tax return.
- Ask your banker if you can qualify for a small business loan
- If you own a business, ask your tax preparer if you can delay the employers portion of Social Security payments.
- If you have a 401k plan and need contribution relief, let us help you delay or eliminate those payments.
- Student loan repayments of up to $10,000 per beneficiary per lifetime are also now considered qualified expenses from a 529 plan.
- Consider converting some of your IRA to a ROTH IRA. With market values down, this may be a good time to convert.
- There are enhanced tax benefits for charitable gifts. For those who itemize their deductions for giving, the 50% of AGI limit is suspended for 2020.

Medical: Last night, Dr. Stephen Smith, an infectious disease M.D. in Roseland, N.J., gave an update on his study of just over 50 COVID-19 patients who he has been treating with hydroxychloroquine (malaria drug). "No patient who has received hydroxychloroquine for 5 days or more has had to be intubated" He further stated, and I'm paraphrasing here, that he sees a high correlation between serious COVID cases and diabetes. At the close of the interview he stated, "Hydroxychloroquine is a game changer and I believe it's the beginning of the end of this pandemic".

Oil: The oil price war between Russia and Saudi Arabia. This morning, oil is rallying 10% due to constructive talks between Trump and Putin.

Interesting nuggets: (source Podcast by Louis Navellier, Chief Investment Officer of Navellier & Associates): According to Bespoke Investment Group, whenever day one of a new quarter starts with the broader indexes down over two percent, the median return one month later has been 4.6% and the return for the new quarter has been approximately 7%.

Italy has picked April 14th to resume normal life and work schedules.

Remember this: The peak to trough decline was approximately 35% on the S&P 500 in a period of 32 days. In the Great Recession that began in October 2007, it took from October 2007 until October 2008 for the S&P 500 to fall 35% from its peak (Source: Thompson Reuters).

"In the financial markets, hindsight is forever 20/20, but foresight is legally blind! So for most investors, market timing is a practical and emotional impossibility" – Benjamin Graham, The Intelligent Investor

"The only investors who shouldn't diversify are those who are right 100% of the time." – John Templeton

"Investors diversify because the future is uncertain, and no one can predict with certainty which asset class will win or lose over the upcoming cycles." - Russell Investments

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