

We are living in an unprecedented time in the world. There are three simultaneous crises — public health, economic, and societal — as the coronavirus spreads, causing an economic contraction the world has never experienced. The pandemic is forcing social distancing and, in many cases, a need to shelter in place that is likely to have unknown mental health consequences. Our nation is forced to confront a very uncomfortable dilemma, weighing the risk of loss of life versus decimating the economy and people's livelihoods.

The draconian measures being implemented to slow the spread of COVID-19 is grinding the global economy to a halt in a way never experienced. This has led some to question if the cure is worse than the ailment? In solving one crisis we create several others with unknown consequences, such as the long-term impact of trillions in government stimulus. The Fed bypassed using the "bazooka" in their arsenal and went straight for the MOAB (Mother of all Bombs) where the Fed can buy virtually any fixed income securities, including ETF's.

The impact of shuttering a \$21 trillion domestic economy will not be understood for some time. Unemployment could reach as high as 20%, equaling depression-era levels. The contraction in GDP for Q2 is estimated to be -30% (DWS) up to -50% according to St. Louis Fed President Bullard. Economic indicators like the Financial Stress Index and Empire State Manufacturing Index spiked to 2008 levels and, in some cases, exceed readings from the Great Recession. Investors have been confronted with the reality that there is no free lunch, as even highly rated corporate and municipal bonds were taken to the woodshed in the initial sell-off.

The question on every investor's mind is, should I sell and get out or is this a buying opportunity? The answer is yes. I am not trying to be facetious with the answer. I believe the prudent step for investors, depending on your time horizon, is to do a combination of tactical changes and shelter in place with your portfolio. It is during these times that behavioral finance tells us emotional bias is most prevalent and we need to guard against those missteps. This crisis is very different than the dot.com bust in 2000 and the Great Financial Crisis of 2008. Both of those bear markets were the result of structural problems in the economy and markets that needed to be corrected before recovery could occur. Our economy was in most respects healthy and poised for continued growth, then the pandemic hit.

The difficult question is whether the shutdown will cause structural problems or will immediately bounce back when the public health crisis is over? Congress taking quick action on a never considered level of stimulus, \$2 trillion just to start, should help offset much of the damage being done and help consumer and business confidence rebound relatively quickly. My largest concern is that corporate debt becomes another black swan event that no amount of fiscal and monetary stimulus can repair. If we navigate this crisis without creating a crisis in corporate debt, I expect a V-shaped recovery in both the economy and financial markets.

So, what should investors be doing today? First, realize that it is going to take courage to take advantage of historically attractive valuations. I remember, vividly, the headlines in March 2009 suggesting the crisis was just beginning and markets had further to fall. It turned out to be the perfect time to buy. If you were a couple of months early you needed a strong stomach to stay the course. Here is where having a disciplined process makes all the difference. Courage comes from knowing we are not simply guessing what the right action might be, but adhering to a rules-based approach that has stood the test of time. Just as we rapidly reduced risk in DRH portfolios when the crisis began, we will need to add risk before the talking heads on TV tell us the coast is clear.

The biggest mistake investors will make following the crisis is to wait for clear skies and sunshine to take on market risk. The S&P gained 25% between March and December of 2009 while many investors were still on the sidelines. It took an additional 3 years to recover the remainder of the losses from that recession. My advice: take an umbrella with you when taking on risk (have hedges). Don't wait for blue skies when risk has subsided as much of the opportunity will have subsided with it. We are here to help guide you through this tumultuous period.