ANCHOR
Investment Management, LLC

# Q1 COMMENTARY 2020

**March 31, 2020**

| Market/Index | 2017 Close | 2018 Close | 2019 Close | 2019 Change | As of 03/31/20 | 2020 Change |
|---|---|---|---|---|---|---|
| DJIA | 24,719.22 | 23,327.46 | 28,538.44 | 22.34% | 21,917.16 | -23.20% |
| NASDAQ | 6,903.39 | 6,635.28 | 8,972.60 | 35.23% | 7,700.10 | -14.18% |
| S&P 500 | 2,673.61 | 2,506.85 | 3,230.78 | 28.88% | 2,584.59 | -20.00% |
| Prime Rate | 4.50% | 5.50% | 4.75% | -0.75% | 3.25% | -1.50% |
| 10-year Treasury | 2.40% | 2.69% | 1.92% | -0.77% | 0.67% | -1.26% |

**Well it goes without saying...** the first quarter of 2020 has been one for the record books, and I think we are all glad to get it behind us. Major events like this have a way of helping us to focus on what's important. At Anchor, we realize that we had been preoccupied with some things that didn't really matter and have enjoyed getting back to basics. Ask us again in three months if we feel the same way; the teenagers remind us of Lord of the Flies…

At Anchor, our clients are our friends first and customers second, and we want you to know how much we appreciate the conversations we have had with you recently. You have buoyed our spirits and given us as much encouragement as we hope we have given you. Please stay safe, and if you need assistance navigating the "new normal" we would be happy to help direct you to the appropriate resources.

With regards to your finances there are five things we are monitoring here at Anchor.

1. **The COVID-19 outbreak**
2. **The public's reaction to the outbreak**
3. **The government's reaction to the outbreak**
4. **The market's reaction to the outbreak**
5. **What companies will thrive coming out of the crisis**

## These are our thoughts at the present time:

### 1. The COVID-19 outbreak

Viral outbreaks have been common throughout history. COVID-19 is the first major one the US has faced since Polio in the 1950s. Before Jonas Salk's vaccine, Polio affected 58,000 people per year causing over 3,000 deaths. Our technology, communications and preparedness to fight such an outbreak are now significantly more advanced. Cooperation among governments, drug companies, health care providers, and corporations has been amazing, which should result in a much more rapid recovery than we have previously witnessed. When compared to the timeline for eradicating Polio (the vaccine took 59 years to develop and 9 years to distribute) experts anticipate that the speed at which this process is concluded for COVID-19 will be awe inspiring. That being said, this outbreak will likely not be a short-term event and the United States has seen only the first part of the contagion. The next 3-6 months is expected by many to be a difficult period; please take every precaution to keep yourselves safe.

### 2. The public's reaction to the outbreak

Ponder this question: if the government had asked the US population to go into self-imposed quarantine on January 1, how many people would have done it? Probably zero. The dissemination of information, the quality of news reporting, and the redundancy of a well-crafted message have allowed people to understand the virus, how it is transmitted, and ways to protect themselves better than any other time in our history. The US population has essentially decided to quarantine itself without being ordered to do so by the government. That's much different than what has happened in other countries and a testament to our ability to work together to achieve a common goal. It's amazing to watch, and this American trait will be the key to our resurgence going forward.

### 3. The government's reaction to the outbreak

***Monetary Policy*** Moving away from the gold standard in the 1970's has allowed the Federal Reserve to save the US from numerous catastrophes in the last 50 years. This will be the largest intervention ever, dwarfing the 2008 – 2009 crisis, and is the primary reason the world's existing economies will survive. We have already seen the REPO markets, Commercial Paper Markets, and Municipal Bond Remarketing seize up and stop functioning correctly. But in each instance the Federal Reserve has stepped up with **billions** of dollars of liquidity instantaneously. They have stated publically that they will create the liquidity to keep any and every market functioning through this event and that should comfort all of us greatly. You do not need to worry about a run on the banks or a financial crisis during this time.

***Fiscal Policy*** There is no "Bad Guy" and no one to blame for this event, which means most of the partisan squabbling has been eliminated. Just last week the government passed a $2 Trillion relief package that includes stimulus for workers, corporations, and banks. We know that employees will be laid off, businesses will see revenues decline and struggle to pay their bills, and banks will have disruption in receiving loan payments. The stimulus bill will provide support for all three groups in the hope that once this disruption is over we can revive again quickly. It will likely be the first of many stimulus bills in the coming months and will be vital to our economic recovery.

### 4. The market's reaction to the outbreak

The downside to having easy access to information is that people and computers can react to it en masse. With computerized algorithmic trading now responsible for over 50% of trading volumes, market volatility has increased exponentially. The market's selloff has been the fastest in history and 1,000 point daily swings have become common. While short-term traders will try to profit from these swings, the results are typically poor. Patient, long-term investors almost always have the upper hand in these situations.

From a market watcher's perspective it is easy to decipher **who** is buying and selling by **when** they are trading. Monday's trades will usually reveal what the individual investor is thinking, as folks have read the news and looked at their accounts over the weekend, then place trades to buy or sell stocks or reallocate 401(k)'s. Those trades are executed on Mondays and the professionals get out of the way. Morning trades are frequently overseas markets and individual investors who place orders at night. These trades often dubbed "dumb money" have been sales recently. The "smart money" trades are taking place in the afternoons. Mutual funds, hedge funds, and investment managers work all day to assimilate information, make a plan after lunch, and then execute those trades between 3:00 and 4:00 when there is a lot of liquidity. If you notice, the market has been moving up the last hour of trading many days which suggests that the "smart money" thinks the market is oversold and some good buys are available.

### 5. What companies will thrive coming out of the crisis

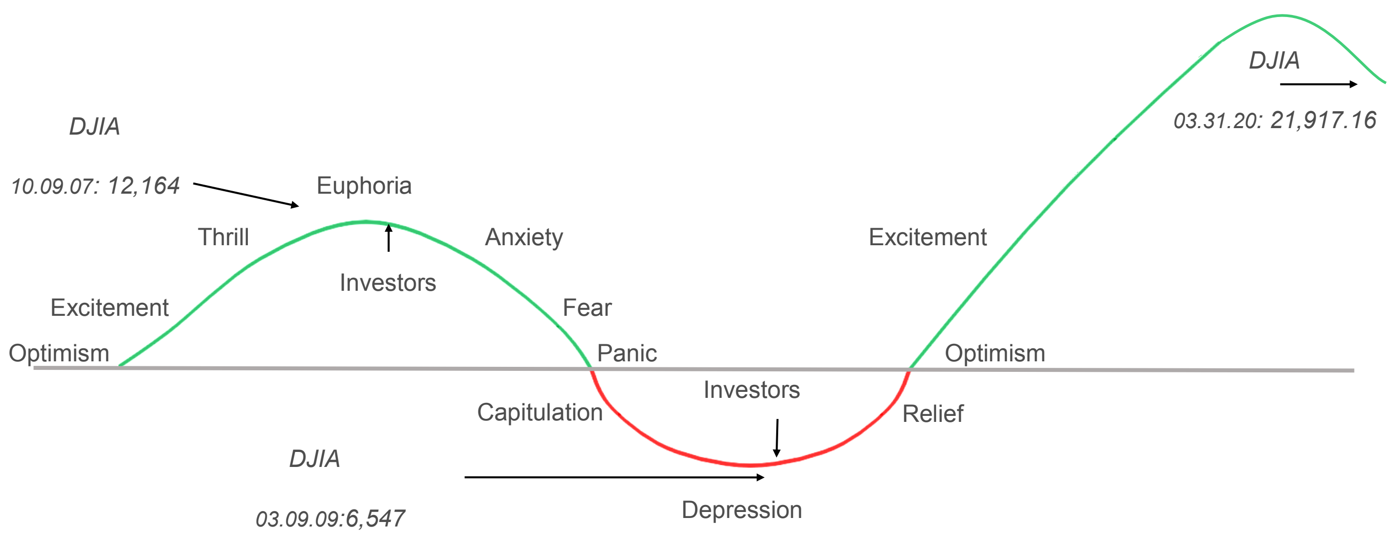
Unfortunately not all businesses will endure this disruption. Most publically traded companies will survive due to the availability of government intervention and loan programs, but many will be hobbled with debt and not be good long-term investments. On the other hand, companies with strong management teams who have been building up cash and saving for a rainy day will thrive. The businesses you own are large cap companies with strong balance sheets and good management teams; they were in good shape before the crisis and should be in good shape after the crisis. We have made minor adjustments in the last two months but have not made massive changes to your allocations or to your portfolios. We are waiting to pounce.

At Anchor, we are seeing tremendous differences between some companies' intrinsic values and their stock prices; let's use Apple as an example. If Apple was not be able to sell any phones, computers, or tablets for a full year but would return to normal after that, how would you value the company? In Apple's case they would lose about $75 billion in revenue and $30 billion in gross profits. While that's a lot, it's not a business failure; it is a temporary anomaly that will reverse itself. Apple has $107 billion in cash and can easily pay their bills during this time. Meanwhile, Apple's market capitalization has fallen by an astounding **$300 billion**. Apple is clearly undervalued and can be purchased at attractive prices. We continue to look for and will act on these opportunities in the months ahead.

Let's not forget that the shutdown will also create new opportunities. There will be a baby boom in 2021, families will take trips that they have put off for years, manufacturing of critical supplies will be brought back to the US, and people will move away from large cities creating an unprecedented building boom in the south. There are many bright spots for investors who think long term.

**It is important to remember that future returns are made up of many items, including starting point, length of time in market, economic factors, and fiscal policy. The price you pay for an investment is highly important and we believe the recent drop resets future returns in a positive way. We thank you for your trust and friendship and look forward to getting together with you soon. Please be safe and let us know if we can help you in any way during this time.**

## 2007- 2020 Investment Cycle




**On March 27, 2020, the president signed into law the Coronavirus Aid, Relief, and Economic Security Act (the "CARES Act") as part of the $2 Trillion stimulus package. The CARES Act provides for a waiver of required minimum distributions ("RMDs") that would otherwise be payable in 2020 for individual retirement plans (IRAs). Please contact our office if you would like additional information about this provision.**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