# WOODARD & COMPANY
## Asset Management Group, Inc.
Registered Investment Advisor

# Portfolio Profile



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**We are very sorry** that we did not anticipate the devastating health and economic crises which has occurred in the past month stemming from the Coronavirus pandemic. As we continually watch for potential economic problems, we know from market history that pandemics have caused declines in the past. At any given time there may be another event such as the Spanish Flu of 1918 that wreaked havoc in the markets. Other viruses, such as the SARS virus in 2003 and the swine flu of 2009 only had a modest effect on the stock market.

From the reporting that we followed in late January and early February, the Coronavirus appeared just modestly troubling when compared to other past viral outbreaks. The initial reports from the World Health Organization (WHO) and the Center for Disease Control (CDC) may have been somewhat misleading. It appears that they did not have good data from China, therefore they did not appreciate the extent of the impending crises. Other reports suggest that WHO was inordinately sympathetic to China and did not wish to create a negative view of the country. We have been quite frustrated as some estimates and reports as recently as mid-March were still overly optimistic. Perhaps government officials did not know what was coming, or they were trying to control panic. Regardless, it does seem that someone knew what about to happen as several members of Congress decided to exit the market in January and February.

**Your investment portfolio** at Woodard & Company is diversified in a prudent manner, relative to our understanding of your risk tolerance and objectives. Markets go up and markets go down, over the long-term stocks have averaged about 10% per year. Sound diversification, good investment selection and a patient long-term perspective mitigates much of the risk of investing over the long-term.

True investment risk typically occurs when an investor puts all of their money in one stock, sector, asset class, or just one investment that is not well chosen or circumstances conspire to cause its demise. These non-diversified investors can lose much, if not all of their money if the business or entity fails (i.e. Wachovia Bank stock in 2008, or having all your money in certain technology stocks in 2000-2002).

Long-term we are always confident in our approach of sound diversification and solid investments; patience will be ultimately rewarded. Unless we are able to anticipate the extent of an impending crisis and have cash available, as investors we should ride through the volatility "storm," confident in the knowledge of a well-diversified portfolio of good quality investments. We encourage you not exit the market after it drops sharply, only to get back in after it has gone back up. That approach is a recipe for disappointment and loss. History has demonstrated patience and forbearance will be an effective, sound, and profitable approach for those with solid investment portfolios. In the meantime, it is, to say the least, a miserable, sad, and tragic event.

**The first hard estimates** from the White House Coronavirus Task force, using the data from the CDC, Johns Hopkins, WHO, and others were just released on March 31. The taskforce estimates that 100,000 to 240,000 Americans will lose their life to the Coronavirus. That is the most reliable estimate we have seen so far (hopefully the numbers are less dire than that). According to the taskforce, the peak will be in a matter of days for New York and weeks for the rest of us. Without closing of the borders and the action regarding social distancing, Dr. Fauci estimates the number of deaths could have been upwards of 2.2 million fatalities in the U.S. alone. Part of the problem in estimating this event is of course the unreliability of data from China. Accurate and complete data from that source has always been suspect. Had the early data from China been forthcoming and accurate, it could have saved many lives around the world and mitigated much of the economic devastation.

**As we analyze this tragic event** and apply it to future action, we recognize that the early data cannot be relied upon (although we expect it to improve). We feel the missed signal for us was the closing of the border with China in January. It appears to us the unprecedented closing of the border was the only signal given of the pending nature of this terrible crisis. We apologize for missing that signal. We will add this signal as well as any other unusual government action as a possible sign to get more cautious.

**Due to the outperformance** of the stock market last year (2019), we did a rebalancing in many accounts where applicable (those with bonds) in January before the selloff began. This meant we sold stock positions and added to bond funds. Unfortunately, this was not a significant reallocation, but was helpful.

We made other helpful moves for those with bond positions. We had purchased positions holding intermediate to long-term investment grade bonds yielding about 4% when the Ten-Year Treasury was yielding about 1.5% in January. We had the intention of holding them long-term for the yield. We subsequently sold those positions on the day the Ten-Year Treasury surprisingly hit it's all time closing low of .43%. This sale gave us a remarkable short-term return, generating a roughly 4% profit after a mere forty days after we had bought the bond positions. While this helped somewhat, other losses soon overwhelmed any gains.

**There are two positives** we would like to highlight for your consideration. First, the U.S. economy entered this crisis at a very strong point with unemployment very low and wages beginning to move up. Also, U.S. banks are financially strong, unlike 2008-2009.

Secondly, much has been done to infuse considerable stimulus into this economy, and into other economies around the world. Central banks here and abroad are pumping mountains of cash into the system and Congress has dumped over $2 trillion into the economy with likely more on the way.

We will recover economically. But as of the writing of this newsletter, we still have increasing rates of infections and mortalities in the U.S. We cannot know how long the economy will be frozen. There will likely be more difficulties ahead both on the health front and in the economy. We wish you good health. Time will fix the economy and the markets, and ultimately the health of Americans.

**No Required Minimum Distribution** for 2020. The $2 trillion "Coronavirus Aid, Relief, and Economic Security Act" waved the requirement that retirees take an RMD (Required Minimum Distribution) in 2020. If you wish us to stop your RMD, please call us. If you have already made withdrawals you may be able to put them back in if you wish. But as we understand it, the redeposit must be within sixty days of the distribution. As always, please consult your tax preparer to do what is best in your personal situation.

You can withdraw up to $100,000 this year without the 10% penalty for those under age 59½ if it can be demonstrated that the withdrawal is because of the outbreak.

Even if you do not itemize and if you give to an authorized charity (not a donor advised fund) you can deduct up to $300 for charitable contribution which you can subtract from your gross income. For very wealthy donors who itemize, you can deduct 100% of the gift against 2020 AGI for cash gifts to a public charity (not donor advised funds).

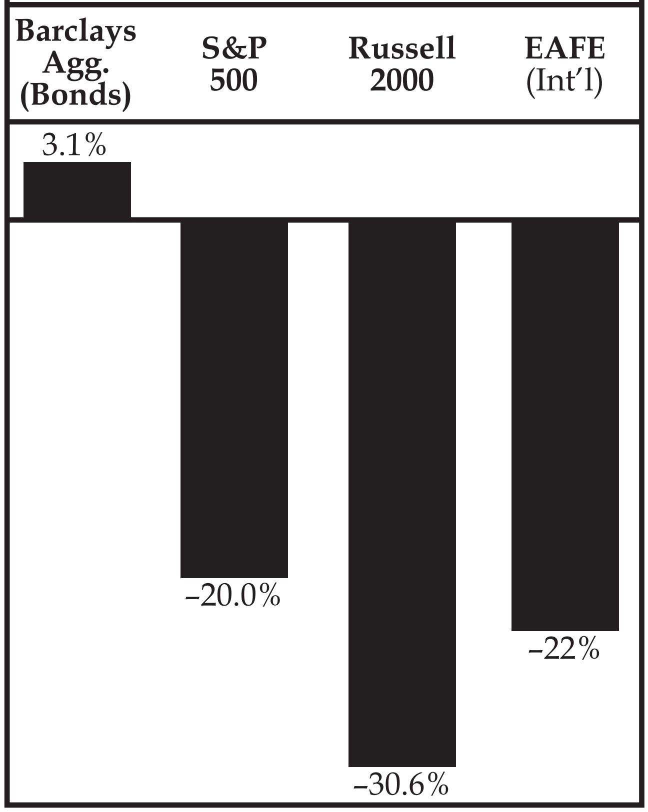
**Market Review and Forecast.** It is difficult to find the right words to write for this market summary. Certainly stock markets have crashed before, but never ever because government officials have banned almost all human interaction. About 85% of us nationwide have been ordered by our governors to "stay at home."

As a result, unemployment claims hit 6.6 million in early April, almost 10 times more than the previous high of 695,000 set in 1982 and much greater than any economist had forecast. Who could have imagined that our recent record low rate of 3.5% may eventually reach depression-era rates above 20%?

The COVID-19 virus that has caused the unthinkable economic meltdown first sickened Chinese citizens last December and as of March 31 has caused nearly 5,000 Americans to die from the more than 215,000 who have been infected. (Many believe we will have a vaccine by early next year and innovative treatment discoveries soon to lower the U.S. death rate.)

Forbidding normal economic activity has dealt a devastating blow to the economy, causing the Dow to plunge 23% this year – its worst quarter since 2008 and its worst first quarter ever. A better measure of the economy is the broader S&P 500 that declined 20% last quarter. Diversification didn't help either as small stocks (Russell 2000) dropped 31% and international stocks went down 23%.

**The Major Indices**
**First Quarter — 2020**




The S&P 500 set an all-time high February 19 only to dive 34% in five weeks to hit its quarterly low March 23. It bounced back 16% by the end of the month, sparked by President Trump's signing on March 27 of the massive Coronavirus Aid, Relief, and Economic Security Act (CARES.)

Market volatility during March was relentless when four digit Dow moves were the norm. The S&P 500's absolute average daily percentage change last month averaged 5%, obliterating the previous 3.9% record high set in November 1929. Both the Dow's and S&P 500's March monthly decline were the worst since October 1987 when programmed trading malfunctioned to cause a 23% one-day decline, still the worst one-day selloff ever. (Despite that debacle, the S&P 500 was up 4% in 1987.)

The $2.2 trillion CARES Act is by far the largest spending bill ever. (Reminder: A trillion seconds is almost 32,000 years.) However, even that huge number is less than 10% of our $24 trillion economy.

The bill's most popular provision, estimated to cost about $300 billion, allocates direct payments to taxpayers. Singles earning up to $75,000 and couples making $150,000 or less will receive payments of $1,200 each plus $500 per child. (A qualifying family of four receives $3,400.)

The largest CARES expenditure is $500 billion for loans to both large corporations and state and local governments. It includes possible federal corporate equity stakes as happened in 2008. (Any company receiving aid cannot raise the pay of executives earning over $425,000 for the next two years.) Airlines are allocated $50 billion – half in grants and half in loans.

Small businesses (companies with no more than 500 workers) get $350 billion, mostly in forgivable loans. There is also $17 billion allocated for six months of monthly payments owed for loans to the Small Business Administration.

Emergency unemployment insurance of an additional $600 per week (above existing state payouts) for four months is projected to cost $260 billion.

Health care is getting $150 billion, including $100 billion for grants to public and non-profit health organizations and Medicare and Medicaid suppliers. State and local governments are also slated to receive $150 billion.

Allocation for Homeland Security is $45 billion. There is $31 billion going to education that includes $13.5 billion for states to distribute to local schools and programs and $14 billion for higher educations.

Unfortunately, besides many other provisions in the 1,000-page bill, there are Congressional "pork" payouts, such as $75 million for national public radio and a $25 million grant to the Washington, D.C. Kennedy Center for the Performing Arts.

The Fed has lowered the Fed funds rate once again to virtually zero and has $700 billion ready to buy bonds and mortgages. Its balance sheet hit an all-time record-high of $5.3 trillion on March 27, up 12% from the previous week. Interest rates are extremely low with the 10-year treasury ending the month near 0.6% after its yield set an all-time low of 0.32% on March 9.

Federal officials helped out by suspending IRA required minimum distributions (RMDs) this year for anyone age 72 or older. The deadline for paying taxes and for opening a 2019 IRA has been extended to July 15.

A mixed blessing for the economy is low oil prices that continue to plunge, down 67% this year to just over $20 for a 42-gallon barrel. The U.S. produced 13.1 million barrels a day in February, an all-time record. Averaging nationally a tick under $2.00 a gallon on March 31, prices seem destined to go even lower as demand is nowhere to be found.

No one can make any realistic market forecast for this quarter because no one knows when the number of new COVID-19 cases and deaths will begin to decline. (New York Governor Andrew Cuomo predicted Wednesday that would happen at the end of this month.)

When those slackening rates occur, we should have a terrific rally. However, until then stocks may continue to drop, but almost certainly at a much slower pace than last month.

If you have any other questions about your account or any concerns, please give us a call at 336-998-7000. We are always happy to talk with our clients even in difficult times.