EDWARDS
ASSET MANAGEMENT

*March 2020*

## Coronavirus Concerns and Market Musings

Safe wishes from Naples as we confront another tumultuous week…
In the past weeks, the stock market has swooned, marking the 40th time in my 30+ year career that the S&P 500 index had a 10% correction or more. Yet, despite those 40 swoons (with an average decrease more significant than 14%), the Dow 30 and S&P 500 indices have achieved an overall 9%+ annualized total return. Every decline is a surprise, and each is ascribed one or more culprits; this decline found one in the newest coronavirus outbreak, COVID-19. I am not qualified to offer a credible consideration as to how this outbreak may spread or how many lives it will affect before it is brought under control. However, I am confident that many of the world's leading epidemiologists, in the finest and most technologically advanced labs, have already sequenced the viruses' genome and are working to beat it. I believe that their efforts will prevail in both prevention and treatment, and I offer my sincere sympathy to all those individuals and families affected by the virus.

I cite the following health epidemics outbreak history as a guide (www.cdc.gov):

- 2003, SARS (Severe Acute Respiratory Syndrome)
- 2005-2006, Avian Influenza (Bird Flu)
- 2009, Swine Flu (a new strain)
- 2012, MERS (Middle East Respiratory Syndrome)2014, Ebola (Dallas outbreak)
- 2016-2017, Zika virus (women of child-bearing age avoided Florida for Christmas)

The uber-spreading and high-percentage-rate killer SARS began when a worker from the fish market entered a Chinese hospital on January 31, 2003; the virus circulated quickly. From the outset of the above epidemic list -17 years and one month ago through February 28, 2020 - the S&P 500's total return (inclusive of dividends) rose by 389% (Standard and Poor's). Seventeen years, seven epidemics, and one Great Recession later, the S&P 500 returned nearly four times the original investment. I suspect you know where I'm going with this: The only rational course for investors is to stay vigilant, focused on the long-term goals and not the short-term concerns.
As always, history, not headlines, is our guide and North Star. Regarding current fears and uncertainties, keep washing your hands, and this too shall pass.

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Now for some ***Market Musings***:

***The Consumer:*** The US economy (GDP) is 70% consumer dependent, and the consumer I argue may have never been better. Unemployment is now 3.5%, a 50-year low figure, and new job creation remains high with a robust 273,000 positions for February 2020. Wages have recently risen faster than CPI inflation. US Household Debt remains manageable for families, as debt service represents only 9.7% of disposable household income, the lowest levels on the Federal Reserve database (initiated 1980). US Savings rates are at 7.9%, one of the higher levels of the past 20 years. The consumer is just fine, thank you, and as goes the consumer, so goes the economy.

***Interest Rates:*** Interest rates have plunged to all-time lows; as of this writing, 10-year US Treasury rates are at 0.74%, and the 30-year US Treasury bond pays a paltry 1.09%, a level never visited before. With these rates, I anticipate a future rise in home sales and starts; mortgage originations and refinancings; purchases of appliances, furnishings, and other durable goods; and auto sales and leases - all the big-ticket items.

***Energy:*** Oil prices have collapsed as the Russians, frustrated by shale output, broke with OPEC's efforts to tighten supply and lift prices. Presumably, losing oil traders have lamented the price decline, but many US families will benefit from lower prices at the pump.

***Inflation:*** Inflation remains low and below the 2% annualized target rate and well below the long-term historical CPI average of 3.45%.

***US GDP:*** Coronavirus disruptions to supply chain, travel, etc., will likely keep the first and possibly the second quarter of 2020 GDP flattish (a tie for the record); however, the lower interest rates coupled with some control over the virus outbreak will likely stir large-ticket purchases and pent-up demand activity throughout the rest of the year to improve GDP figures by year-end. Corporate earnings misses may receive a pass for the first half of the year and may achieve yet another record by year-end.

***Recession:*** The "R" word, and my nemesis, without fail, is predicted by media pundits several times a year. Over the years and many, many attempts, they've even gotten it right several times. Coronavirus is the current recipient of finger-pointing. That said, we don't want to deny it's a remarkable record of failed tea leaf readings, and we remain optimistic that US GDP could accelerate by year-end for reasons mused above.

***Stocks:*** Equities have had a sharp and quick pullback. From these reduced levels, with attractive dividend yields, dividends, which I believe are likely to be increased over the long term as in the past, we currently see an opportunity to generate higher than historical total returns over the next 3-5 years. When selecting equities, we search for companies with strong financial positions, decent dividends, and favorable prospects. I remain optimistic as the historical data, particularly from uncertain and concerning times, weighs heavily in favor of the optimist.

***Bonds:*** Ten-year US Treasury bonds now yield 0.75%. Why lend the government money at a rate below the stated government target-inflation rate (2%), and then pay a tax on the interest? Without a yield that you can survive on, bonds have been reduced from effective income vehicles into certificates of speculation. TV pundits and some financial advisors fail to note that nearly all Treasury bonds and notes now trade at a premium over the face amount, and their value is guaranteed by contract to suffer a loss of capital to maturity. Thus the only return an investor can count on in bonds at this time is the "yield to maturity." Unlike stocks (business ownership), bonds cannot grow and offer no significant opportunity for an investor to keep up with inflation. I consider those recommending them to be assisting in long-term retirement financial suicide.

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Office Buildout Update: After almost 20 years, we recently moved to the Penthouse across the parking lot, and into the adjacent Pelican Bay building, 100 yards closer to the Artis-Naples cultural campus. The 6,000-sq-ft office is livable and getting better. Construction permitting delays (currently waiting for FEMA approval - no kidding) have been frustrating (I was warned), but we're grateful for how beautiful and safe the County's arduous process has made our community and its public spaces. The contractor's best guess is another 4-6 weeks till we can hang art in the lobby, boardroom, kitchen, and my sweet office. So pardon our dust! The new address is:
5811 Pelican Bay Blvd, Suite 600, Naples, Florida 34108.

As ever, we invite your inquiries addressing your investment concerns. In the meantime, I think the most heartfelt and helpful investment counsel I can share would be that you step away from the markets, take a walk, read a book, enjoy your loved ones, and remain confident that as life-time investors, our patience and discipline remain our mighty sword and shield.


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