New stock market update from Pawleys

Kathryn Schwartz <kschwartz@pawleysadvisors.com>

Thu, Apr 16, 9:12 PM

Dear Clients and Friends,

Our hearts continue to go out to everyone during this tough time. Fortunately, early glimpses of light are illuminating the end of the tunnel. We have seen *both* things I believed had to occur in advance of the markets finding some footing: two consecutive solid "up" days (March 24th and 25th), and good news on the medical front. Last week the S&P 500 jumped up +12%. So at this point our relative "bottom" of the current downturn occurred on March 23rd, only a few short weeks after the all-time historic high on February 19th. The markets have never fallen so far so fast, thus the sharpness of last week's rebound is not surprising. News of planned business re-openings on the West Coast and a flattening of medical numbers in New York is very welcomed. Companies like Starbucks, Apple, and Nike have re-opened stores in China, and have shown promising recovery numbers. Europe and the U.S will follow. That being said, short term numbers around earnings, employment, and other economic markers will be dizzying, yet should be taken with a grain of salt.

Many of you who are able have taken advantage of these lower levels and added to your stock allocations over the past few weeks. We are, though, by no means out of the woods, and it is impossible to predict market bottoms. Earnings releases for the first quarter started this week, and the range of estimates vary wildly. Governments across the globe have sent crystal clear messages that they will step in and provide whatever support is needed, and the Central Banks are in solid positions to fulfill that. Their policy response in providing liquidity while simultaneously back-stopping the credit markets has been key, and will ultimately preserve the financial health of individuals, small businesses, municipalities, and corporations. The monetary and fiscal programs are very complex, but banking systems are structurally sound and married with thoughtful public health responses, will lead us through this more quickly than many anticipate.

As I have said, I will be watching earnings very closely and assessing how the shutdowns will affect results. The supply/demand impact will vary industry by industry, and I believe valuations will be influenced more significantly by sentiment than by earnings projections. There is a decent amount of health to the recent rally and despite near-term challenges, high-quality U.S. stocks of companies with strong balance sheets will remain, in my opinion, the single best place for investment dollars. With the yield on the 10-year U.S. Treasury hovering at just 0.6%, equity investments remain the optimal vehicle in which to grow wealth. Now is the time to maintain a coordinated, disciplined, and patient approach to investing. Please continue to reach out with your questions and concerns - we are working very hard to keep communication flowing with everyone. And most importantly, please stay safe and healthy, and thank you for your continued trust and confidence.

Thank you very much,
Katy

Portfolio Actions from Pawleys

Kathryn Schwartz <kschwartz@pawleysadvisors.com>

Thu, Apr 2, 6:29 AM

Dear Clients and Friends,

The fixed income and equity markets continue to change very quickly, and in unexpected ways. Governments across the globe have sent very strong messages that they will take whatever steps are needed to support economies through this difficult time. Having a solidly structured portfolio of high-quality investments, married with proper financial planning, is key to navigating uncertainty. <u>Now is the time to avoid making mistakes.</u> I recently spoke with a client who noted that now, everyone is talking about the importance of having high-quality stocks and bonds, specifically those from entities with low debt and good revenue growth. It is *with intention* that we have consistently recommended securities with solid financials *to be prepared for difficult times in advance*. We have never recommended high-flying investments, as they struggle to survive difficult times. It is almost impossible to predict the end of event-driven market drops that have started when economies have been very strong, but I thought it would be helpful to share some key points about what we are doing:

1. Today represents, in my opinion, one of the best opportunities in history to buy stocks. If it is suitable for your situation and you are able, please add extra cash to your portfolio for us to invest.
2. Proper diversification and asset allocation continue to be key - these lower levels represent great opportunities to buy stocks, but trying to predict daily market movements can hurt returns since the biggest down days occur right next to the biggest up days.

3. People are living longer, yet the supply of available shares in publicly traded companies continues to shrink - I believe stocks are still the single best way to transfer earned income into wealth.
4. The current yield on the S&P 500 is around 2 1/2% while the 10 year U.S. Treasury is at 0.6%, so stocks continue to be the best way to generate income from your savings.
5. Finding yield in fixed income investments has been incredibly challenging because supply is very low, but we have been able to fund some decent rates on very short term CD's. Short-term high quality tax-free municipal bonds have been very difficult to find. There is an abundant supply of short-term fixed income with poor credit ratings at very high yields as companies scramble to raise cash. Yesterday I saw an offer for 8.2% for 1 year - in my opinion, these types of junk bonds carry way too much risk in any type of environment, especially today.

Now is the time to be making the very best financial decisions that are based on tried and true principles. The current quarter will be very important as we assess how changes in earnings will affect the overall financial health of companies. Over the past several years, we have worked very hard to be prepared for this exact type of environment. Difficult times ultimately lead to meaningful, positive changes. No doubt the current situation will catalyze dramatic improvements in how services such as healthcare and education are delivered, and will also make all of us hone in a little more closely on the important things in life. We thank each and every one of you for your ongoing trust, and hope that everyone stays safe. Please keep your questions coming - we are working very hard to help everyone during this challenging time.

Thank you very much,
Katy

Market assessment from Pawleys Funds

Kathryn Schwartz <kschwartz@pawleysadvisors.com>

Mar 23, 2020, 10:25 AM

Dear Friends,

Coronavirus is taking a significant physical, psychological and emotional toll on people across the globe, and our hearts go out to those who have been affected. I wanted to share with you some of the communication that I have sent out to our clients to add color to exactly what is happening in the markets. As is the case during volatile times, there are many moving parts to what is happening, and most aspects today are both highly technical and happening very, very quickly.

Liquidity - Since companies are having to shut down certain aspects of business, they are scrambling to liquidate assets to raise cash needed for operations, so in essence all asset prices are falling together. This indiscriminate selling is by no means unprecedented. The overall plumbing of the U.S. economy is directly related to liquidity, which is largely driven by creditworthiness. The scale of response by the Federal Reserve, the European Central Bank, and the Bank of Japan demonstrates a commitment to provide much needed liquidity. Unlike in 2008, banking sector liquidity is not currently a problem, but it will take time to get dollars infused into the economy.

Earnings and Credit - We invest in stocks with little or no debt, good earnings growth, and rock-solid cash-flow - and I believe these companies are best-positioned to come through a difficult time such as this. The current price:earnings ratio for the S&P 500 has fallen from over 20 to around 12. I will be watching earnings very closely for the next two quarters to see if there will be any adverse impact to balance sheets (meaning will companies have to take on excess debt to fund operations). The current market is trading based on sentiment (fear), not valuation. Companies will quickly return to last years' earnings, so later this year I will be using those figures to assess valuations. Over-leveraged companies will not survive this, but companies with strong financials will not only survive but thrive. I believe we will quickly see innovations that will catalyze the start of our next great economic growth cycle, especially within the healthcare and technology sectors.

Market Volatility and When to Buy - We started adding to stocks in late February for more aggressive clients. It is impossible to identify bottoms, but markets tend to overshoot. We came into this with a very solid economy - and currently the Leading Economic Indicators are still rising and the yield curve is steepening. While I expect those patterns will likely change for a very short time period, right now presents one of the best buying opportunities for stocks in history. I am watching for two things that, in my opinion, signal we are somewhere close to a bottom - two consecutive solid up days in the stock market, and some type of significant good news on the medical front showing successful results of a vaccine or treatment. I will also be watching how the economic impact of the shutdowns and quarantines moves through China and Europe, as we can expect somewhat similar trends here in the U.S.

It is critical during times such as these to have the very best portfolio managers running your money. The Pawleys Dividend Fund has held up remarkably well during this downturn, and I would welcome the opportunity to share more with you. Please let me know if you have any questions or would like to schedule a phone meeting and, most importantly, please stay healthy and safe.

Thank you very much,
~Katy

More Stock Market Detail from Pawleys

Kathryn Schwartz **<kschwartz@pawleysadvisors.com>**

Thu, Mar 19,
8:26 PM

Dear Friends and Clients,

Many of you have asked for greater detail around what exactly is happening in the markets and what actions, if any, we should be taking. Well-thought out investment plans are put into place for the very purpose of helping you move through times like this without making big mistakes that derail progress towards your financial goals. As is the case during volatile times, there are many moving parts to what is happening, and most aspects today are both highly technical and happening very, very quickly.   That being said, I am going to try to add some color to hopefully start to shine some light on the end of this tunnel. There is no reason we won't move through this.

<u>Liquidity</u> - Since companies are having to shut down certain aspects of business, they are scrambling to liquidate assets to raise cash needed for operations, so in essence all asset prices are falling together. This indiscriminate selling is by no means unprecedented. The overall plumbing of the U.S. economy is directly related to liquidity, which is largely driven by creditworthiness. The scale of response by the Federal Reserve, the European Central Bank, and the Bank of Japan

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We have been through difficult times in the past, but challenges such as this only bring us through to the other side as better and stronger communities. Please let us know anything we can do for you during this time. And most importantly, please stay healthy and safe. Thank you very much for being clients - we appreciate having your trust and confidence, especially during uncertain times like today.

Thank you very much,
~Katy

Market Update from Pawleys

Kathryn Schwartz **<kschwartz@pawleysadvisors.com>**

Mar 14, 2020,
11:05 AM

Dear Clients and Friends,

Coronavirus is taking a significant physical, psychological and emotional toll on people across the globe. In the very, very early hours of Thursday morning, U.S. markets reacted poorly to the President's address the previous night - there was no offer on the 10 year treasury, signalling an unusual degradation of the most liquid market in the world. Equity markets opened, and ended the day with the second largest drop in decades. The NY Fed acted quickly that day, with the unprecedented action of extending treasury purchases *across the yield curve* by $1.5 trillion. But it was not until late yesterday afternoon that the markets finally started to show signs of confidence. The President delivered a well-organized overview of steps being taken by a coordinated public-private partnership to address Coronavirus. Since then, the House passed the Coronavirus Response Act, with both bi-partisan support and approval of the President.

My heart goes out to those who have been affected. Please know that although the stock market has been extremely volatile, trading has been orderly and the exchanges are well-prepared to operate through disruptive times. It is difficult to see stock values retreat from all-time record highs in such an unexpected and swift way. Right now the projections of economists are so wildly varied, it is difficult to see how shutdowns and quarantines will impact corporate earnings. I have run numbers, and even if companies have zero earnings for 6 months, the stock market is still ridiculously oversold. The virus started in China in late December, and it took about 2 months for it to work through the country and for companies to get back to business. So that would put the U.S. being impacted for March and April. We are working tirelessly to ensure that portfolios continue to be well-positioned as we move through this. Many of you have called over the past two weeks to add to your stock holdings. For those of you taking income, we have long planned for such a down-turn, and have plenty of cash to meet your distributions without having to sell stocks at lower levels. The Pawleys Dividend Fund, which almost all of you have as the core holding in your portfolio, is down only -12% for the year through yesterday, versus the Dow being down almost -20%, which is a difference of +8%. The fact that the dividend portfolio is holding up so well, especially after having such a phenomenal year in 2019, is a huge accomplishment. We hold stocks of companies with little or no debt, solid earnings growth, and rock-solid cash flow. I continue to believe that these companies are best positioned to perform well in a myriad of economic scenarios, especially during difficult and uncertain times.

Our top priority is to make good decisions that help ensure that each and every client continues to be well-positioned to meet financial goals. I realize how difficult it can be during uncertain times, but we have been through tough times before and we will make it through again. Publicly traded U.S. companies are some of the most resilient, well-run businesses in the world, and in my opinion remain one of the single best ways to grow wealth. Please e-mail us if you have questions or would like to schedule a phone review. Thank you very much to everyone, and know that we will continue to work hard monitoring both the markets and your portfolios.

~Katy

Perspective from Pawleys

Kathryn Schwartz **<kschwartz@pawleysadvisors.com>**

Thu, Feb 27, 7:47 PM

Clients and Friends:

This week in the stock market has been one of the most difficult in years. We experienced pull-backs in 2011 when Europe sunk back into recession, in 2015 when Brexit first became a possible reality, and in 2018 under the weight of trade tariffs. And yet despite those challenges, solid U.S. companies continued to grow their revenues, propelling the stock market to higher levels. It is important to keep a cool head, but within the barrage of a hyped-up 24x7 news cycle it can be extremely challenging. At this point, economists and analysts are projecting that there will be a very modest drop in corporate earnings as a result of sales and supply chain disruptions caused by quarantines and shutdowns. In the meantime, there are a few recent developments that the press didn't put in the headlines:

1. Starbucks and Marriott have reopened most locations in China.
2. Airbus, GM, and Toyota started re-opening factories in China last week, and today Apple announced factories are going back into production.
3. The U.S. Leading Economic Indicators for January were released at +0.8%.
4. Today The Atlanta Fed adjusted Q1 2020 GDP projections up to 2.7% from 2.6%, driven largely by a solid housing market.

A few days ago, the World Health Organization referred to the virus as an "infodemic," with false information being proliferated by social media and the non-stop news cycle, and recommended a "vaccine" against misinformation. As for the markets, since February 12th, the Dow has fallen -12.8%. More importantly the VIX, which is a measure of volatility, has spiked a dizzying +175% within the same time period. That combination is indicative of a very short-term, unsustainable sell-off. We will continue to monitor the markets and economy, and also keep a close eye on the potential impact of the Coronavirus. Please keep your questions and concerns coming by e-mail or phone. It is so important to us that we do everything possible to make times such as these easier for everyone, and ensure that we stay on track to meet your financial goals.

Thank you very much,

Katy

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