PVG Asset Management
LOSS AVERSE INVESTING

Market in a Minute

March 24, 2020

Index Performance: As of March 20, 2020			
Index	Price	Last Week	YTD
Dow Jones 30	19,173.98	-17.3%	-32.5%
S&P 500	2,304.92	-15.0%	-28.4%
NASDAQ	6,879.52	-12.6%	-23.1%
Russell 2000	5,144.30	-16.2%	-39.2%
Russell 2000 Growth	5,002.26	-14.9%	-35.5%
Russell 2000 Value	7,066.28	-17.6%	-42.8%
Russell 1000 Growth	1,335.02	-14.3%	-24.6%
Russell 1000 Value	1,175.94	-16.4%	-34.5%
Shanghai SE Index	2,745.62	-1.6%	-14.1%
SPDR Gold Shares	140.11	-2.2%	-2.0%
GS Crude Oil Total Return	2.75	-32.6%	-60.8%
Powershares US $ Index	28.01	2.1%	7.9%
Ishares EAFE Index	47.05	-11.1%	-32.2%
iShares Barclays 20+ Yr Treasury Bond	159.43	3.6%	17.7%
Utilities Select Sector ETF	47.35	-17.9%	-26.7%
Vanguard REIT ETF	59.68	-24.9%	-35.7%
iShares Mortgage Real Estate	20.01	-38.1%	-55.1%
Wells Fargo BDC	10.52	-28.4%	-48.5%

A Word on the Market
by Pat Adams, CFA

In trying to handicap the Coronavirus and the resulting impact on the global economy it is not an easy task. The most comparable market period, we figure, is the Spanish Flu in 1917-1918, in that the fear factor of this virus is so extreme. The Spanish Flu killed an estimated 20-50 million people and 675,000 Americans. Around 2% of the world population died…can you imagine? The big differnce now, versus a 100 years ago, is the amount of debt in the financial system, as the economy stops, the debt still needs to be serviced. Also, the advances in medicine does not compare, a cure will be developed.

From the high of the market in 1916, to the low in 2017/2018, there was roughly a -40% decline. It is hard to tell what the exact cause of the decline was, WW1 or the flu. Currently, the market is down from the high by about -36% at the time of this writing. Our guess is there will be a small fraction of the population die of the Coronavirus, but on a relative basis, the impact on the economy today will be far larger, in a more compressed period of time. Quicker and deeper. We are seeing multiple estimates of a -20% GDP contraction in the second quarter. We would expect a very significant rebound in the economy by year-end.

China's economy seemed to be down for about a month and is now back to some version of full capacity, but their customers are all offline (U.S. and Europe).

The Swine Flu killed 203,000 globally in 2009, which was overshadowed by the recovery from the financial crisis. In the U.S. 12,500 died, currently 467 people died in the U.S. from the Coronavirus and 15,433 worldwide. It seems like we have a ways to go but the government also has been very aggressive in limiting the spread, obviously who knows for sure.

Dow Jones Industrial Average During Spanish Flu and WW1

Alerian MLP ETF	3.56	-15.4%	-58.1%
iShares Global Telecom	47.34	-9.9%	-22.9%
ETFMG Alternative Harvest ETF	9.72	-6.0%	-43.2%
BitCoin Investment Trust	7	10.8%	-14.5%
Source: Bloomberg & Yahoo.com, Returns are appreciation only.			

S&P Sector Performance: As of March 20, 2020			
Index	Price	Last Week	YTD
Information Technology	1,251.66	-15.3%	-22.3%
Consumer Disc.	711.34	-12.5%	-27.7%
Consumer Staples	516.28	-11.3%	-20.1%
Health Care	916.59	-13.0%	-22.6%
Financials	312.65	-18.0%	-38.7%
Industrials	431.44	-18.4%	-37.1%
Energy	193.93	-19.6%	-57.3%
Communications Services	138.3	-12.3%	-23.7%
Utilities	240.57	-17.2%	-26.3%
Materials	254.16	-12.6%	-33.9%
Real Estate	167.95	-23.0%	-29.9%
Source: Bloomberg website, Returns are appreciation only.			

Interest Rates			
Fed Fund	0 - .25	5-Year	0.52
3-Month	0.05	10-Year	0.92
6-Month	0.05	30-Year	1.55
2-Year	0.37		
Source: Bloomberg.com			

Economic Events This Week			
24-Mar	French Flash Services PMI	39.6	52.5
24-Mar	German Flash Manufacturing PMI	40.1	48.0

The amount of stimulus coming into the global economies is remarkable! In the U.S., it is expected Congress will pass a bill early this week for around $2 trillion, about 10% of the economy and about $10 trillion total globally. The U.S. Treasury and the Federal Reserve are planning $4 trillion of new liquidity to support the fixed income markets by buying government, agency, and even corporate bonds! if this occurs the stock market will likely bottom very soon. This response is much more powerful than what the government did during financial crisis of 2008. Buying corporate debt is a remarkable move!

Congress needs to pass this bill this week and the market will likely bottom (being dependent on Chuck Schumer and Nancy Pelosi is not a comforting thought!!!!). Our view is the virus will fade away in a few months and then the earnings for 2021 will be the focus. At zero interest rates, for an indefinite period of time, the P/E will likely go to 15-18x while the fear of the virus still lingers. Based on these factors we believe fair value for the S&P 500 is around 2700 or 20% upside.

The technicals of the market, this has been the most remarkable bear market in terms of the speed of the decline. Truly, it is fear that has created the economic issues. A very major support level for the S&P 500 is around 2130. Keep in mind this is not an exact science. Around this level it is likely the market will bounce.

24-Mar	German Flash Services PMI	43.0	52.5
24-Mar	Flash Manufacturing PMI	45.1	51.7
24-Mar	Flash Services PMI	45.0	53.2
24-Mar	Flash Manufacturing PMI	45.1	50.7
16-Mar	CPI y/y	1.6%	1.8%
16-Mar	Official Bank Rate	0.10%	0.10%
17-Mar	Unemployment Claims	1500K	281K
Source: Briefing.com			

Economic Events Last Week	
Date	Event
16-Mar	In March, Empire State manufacturing index goes through record decline to -21.5
17-Mar	U.S. retail sales drop 0.5% in February
17-Mar	Prior to corona virus, U.S. industrial output showed strength, but March data shows recessionary conditions
18-Mar	New-home construction slipped in February before Coronavirus issues
18-Mar	U.S. Jobless claims surge 70,000 to 281,000 as coronavirus triggers layoffs.
19-Mar	Philly Fed manufacturing index experiences big plunge in March, general activity index falls to -12.7
19-Mar	U.S. leading indicators rise -0.1% in February pre-coronavirus
Source: Briefing.com	

From the peak of the last two bull markets in 2000 and 2007 the S&P 500 is up less than 50%, so going back to the year 2000, a 50% return over a total of 20 years. Our tactical strategies have crushed the market over the inception back to 2001 and obviously during this decline! Our Dynamic Core and Tactical Total Return strategies are down signal digits year to date versus -36% for the S&P 500 Index. Our Loss Averse Equity Income strategy is down an unusual amount for that strategy even with a significant position in inverse ETFs on the S&P 500, but significantly better than long only equity income funds. The higher dividend paying stocks have been crushed. We like a lot of stocks like AT&T and Annaly Capital Management. Investors in need of income can get once in a generation types of dividend yields.

PVG has focused on loss averse and tactical portfolios for 19 years. If you are a financial advisor, we are confident that our tactical strategies likely significantly outperformed your current tactical managers, we see their performance. If you use just long only strategies, we believe you will find our strategies are a very effective tool.

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