# MARKET INSIGHTS

**FIRST QUARTER 2020**


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> ***"Prosperity has always returned. It will again."***
>
> \- John D. Rockefeller

The first quarter hasn't quite gone as anticipated. Between the COVID-19 outbreak, global quarantines, an all-out oil war between Russia and Saudi Arabia collapsing crude and gasoline prices, and the violent arrival of a bear market, we've all gotten a crash course in the meaning of "Black Swan Event." The volatility displayed in numerous markets and indices throughout the month of March was stunning. Suffice to say, this has not been a normal, efficiently functioning financial environment. The "talking heads" of the world will have you believe that the recent market selloff is absolutely unprecedented. While some aspects of it are in very rare territory (particularly in credit markets), the abandonment of reason and efficient function that we're seeing has happened before.

The chart below shows a history of the S&P 500, the large-cap U.S. equity index, starting in 1926. Believe it or not, period 1 shows the span of the Great Depression. Period 2 is the 1987 "Black Monday" market crash, when the markets dropped over 20% in a single day. Period 3 is the Bear Market that followed the "Dot-com Bubble" burst, and period 4 shows the 2008 Great Recession. For the sake of brevity, we won't mention the volatility surrounding a World War, several "smaller" wars, an inflation crisis, fuel shortages, etc. Market history is punctuated by periods of calamity. The one thing that absolutely every single one of those periods has had in common is they all end. While living the chaos, it feels like staring into an abyss. But human nature will always find a way to illuminate that abyss, traverse it, and move forward. We have always found a way to rebuild, improve, grow, and eventually reach new heights, with lessons learned along the way. Why should this time be different?


The pace of news as events unfold has been blistering, and a review of what's been done in an effort to counter the damage since the onset of this bear market is a list that's expanding rapidly. The U.S. Government, our Federal Reserve, and Treasury, combined with foreign governments and reserve banks, have pulled out all the stops in an effort to set a floor under the markets and get support to the economy and citizens as quickly as possible.

## WHAT HAS BEEN DONE?

**The U.S. Government has:**

- Delayed the filing and payment deadline for 2019 Federal Taxes and 1st quarter 2020 estimates from April 15th until July 15th. Note: 2nd quarter tax estimates are still due June 15th
- Allowed borrowers with federally held student loans to waive the interest on their loans for 60 days
- Suspended for 2020 the requirement to take mandatory distributions from your IRA
- Unanimously passed a $2.2 Trillion stimulus package to offset the impacts of virus-related shutdowns, including everything from direct payments to households to loans and guarantees for the aid of small businesses, states, and municipalities

**The U.S. Federal Reserve has:**

- Cut short-term interest rates to nearly 0%
- Provided broad liquidity measures to primary and secondary investment-grade credit markets, and announced renewed, and essentially unlimited, quantitative easing programs, pledging pricing support to treasuries and mortgage-backed securities, with authorization to extend purchases into other areas of investment grade credit markets

**Global Central Banks have:**

- Deployed a coordinated effort to lower interest rates, provide interbank liquidity, support commercial paper market liquidity, and facilitate US Dollar liquidity globally.

## WHAT CAN YOU DO?

Assuming we get past this (which we will), and life and growth will resume (which it will), there are preparations that should be considered and opportunity to be had. While no one likes market dislocations and depressed values of assets, they present some unique actionable tactics for individuals and families:

**Fund 529 Accounts:** Given the implied long-term time horizon of the account type, the tax deferred nature of the accounts, and the current availability of undervalued opportunities, funding 529 accounts in this environment could yield benefits for decades.

**Refinance Debt:** If you currently have a mortgage, interest rates have likely never been lower. Taking advantage of that opportunity could go a long way towards reducing some recurring overhead expenses.

**Estate Planning:** Gifting of undervalued assets is one of the best ways to plan for and control future estate tax liabilities. In the same vein, gifting within the annual exclusion framework using undervalued assets can allow for more "juice" in the long run for a recipient since they hold the assets for "re-appreciation."

**Tax Payment Extension:** The tax deadline being postponed until July 15th should be viewed as interest-free financing on any tax due for ninety days. Don't spend it all in one place, but a bird in the hand is always nice for an extra three months, just in case.

**Cash Flow, Budget, and Asset Allocation Review:** While basic, these components of any financial plan are clearly being stress tested right now. How are these assumptions playing out in real life, and should yours be re-calibrated?

**Cash Reserves:** You've probably heard us talk about maintaining 6-9 months of cash reserves dozens of times. If you were ever wondering "when is the time to use those reserves?", this is it! These are the rainy days those funds are held for, and once the skies clear, we'll revisit re-establishing any amount that gets used during this period.

## WHAT IS VBGA DOING?

- We're following guidelines and limiting personal interactions, but
- Otherwise, we are fully functional, available, and committed, and
- We are working diligently to navigate these troubled waters on your behalf.

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