NEWSLETTER – APRIL 2020

MARKET TRENDS 3.31.20

Asset Class	QTD	1 Yr
US Stocks		
Large Cap	-19.56%	-7.02%
Mid Cap	-29.70%	-22.56%
Small Cap	-30.65%	-24.14%
International Stocks		
Developed Markets	-23.01%	-14.86%
Emerging Markets	-23.94%	-18.18%
Fixed Income		
Taxable Bonds	3.10%	8.63%
International Bonds	-0.41%	4.30%
Municipal Bonds	-0.41%	4.10%
Alternatives		
Emerging Markets Bonds	-15.00%	-8.08%
Floating Rate	-3.94%	-1.70%
Preferred	-14.56%	-8.12%
Gold	3.60%	21.34%
Real Estate	-24.57%	-17.34%

Source: Factset

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FIRST, THANK YOU

Before beginning part 2 of 2 of this quarter's newsletter for what was an unbelievably challenging quarter, we at Shorepoint would all like to thank you, our clients. We appreciate how many of you have asked after us and expressed concern for our loved ones' wellbeing. It's our job to care for you! But the decency and grace that so many of you have shared with our team amidst your challenges, anxieties, and fears have been heartening which makes us even more dedicated to persevering and helping you through this difficult historical moment. Thank you for your support and rest assured we will continue working hard to position you for long-term success.

ASSISTANCE TO THOSE IN NEED

About a month ago our world changed. The coronavirus quickly grew into a global pandemic, and a price war broke out between the Saudi Arabia and Russia, sending oil plummeting - an immediate threat to the viability of many U.S. energy companies. The markets exhibited unprecedented volatility due to the unique combination of these two simultaneous global shocks.

We will provide a review of the damage that occurred in our markets where panicked sellers have violently liquidated without regard to price. And we will give you our best thinking about a way forward through the tumult.

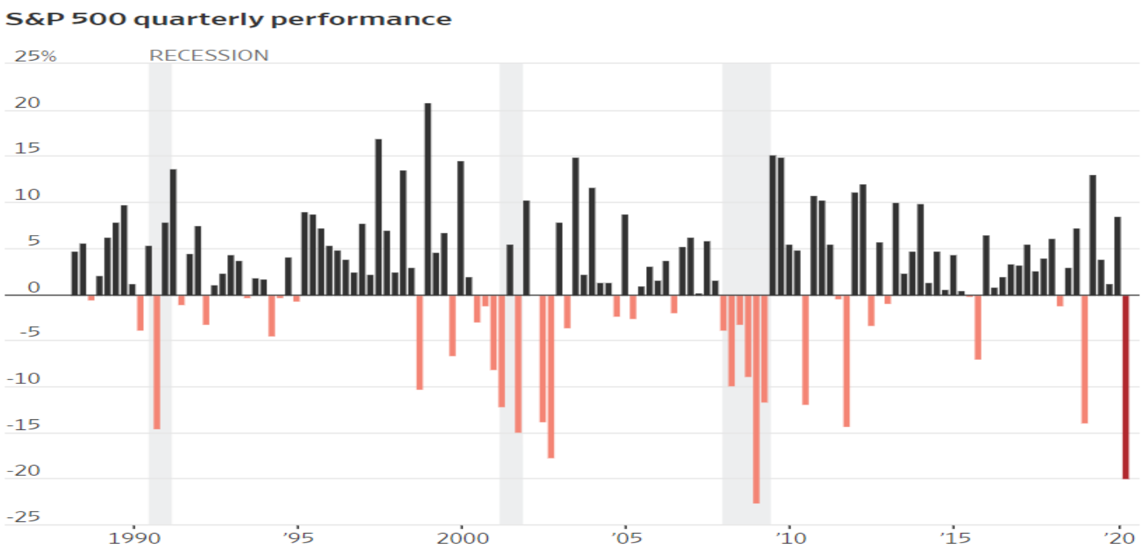
Before we share those details, we wanted to tell you what we will be doing to try to make some small difference to some of those in the greatest need. Shorepoint will be making a donation to **Feeding America**, an organization whose mission it is to feed America's hungry through a nationwide network of member food banks and engage in the fight to end hunger. We'll also be contributing to the **Boston Resiliency Fund**, which was created in response to the COVID-19 crisis. Its aim is to provide food to Boston's children, families and seniors, technology to Boston Public Schools students for remote learning and support to first responders, front-line workers and healthcare workers so they can effectively do their job and promote public health.

A WORD ON ESTATE PLANNING

Use this as an opportunity to review both your Health Care proxies and Durable Powers of Attorney to ensure the right people are appointed and successors are named. This goes for your adult children as well, if applicable, as medical professionals are not allowed to share information with parents without proper authorization once past the age of 18.

SCARY START TO 2020

U.S. stocks sank across all sectors as the pandemic plunged the American economy into a likely recession. The S&P 500 Index tumbled 20% in the first quarter, even after a furious, weeklong 17% rally that halted on the last day of March. The Nasdaq 100 Index fell least among major indices, as investors shifted to the cash-rich tech giants that make up its core. It was even worse for smaller companies as the Russell 2000 Index plunged 31% in the quarter, the most since 1979. In addition, fixed income also took a hit in March with some sectors such as high yield, bank loans, and emerging market debt down almost as much as equities.



For perspective, as March finally came to an end, these are some of the major extraordinary quarterly moves:

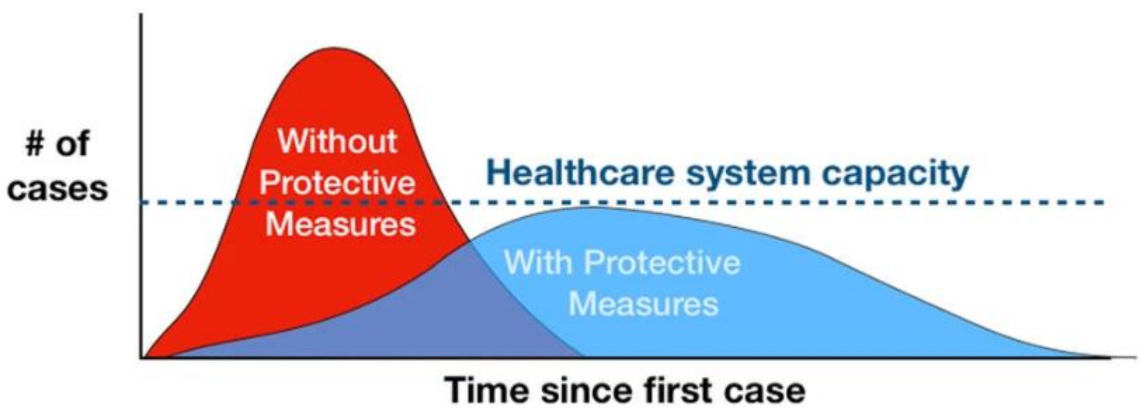
- The record bull market in U.S. stocks turned into a bear market on March 12, eleven years and three days after the last one ended.
- The CBOE Volatility Index averaged 57 in March, triple the mean in the prior decade.
- European shares plunged more than 20% for the worst three months since 2002. Spain lost 30%.
- West Texas oil lost 67%, the worst quarter on record.
- The 10-Year Treasury yield hit 1.94% on Jan. 20. It fell to 0.31% by March 9 and is just above 0.67% now.
- Copper fell 23% and nickel lost 19%, both most since 2011.

IT WAS THE BEST OF TIMES; IT WAS THE WORST OF TIMES

How things have changed in two months. In early February, the focus of the markets was on the Phase 1 China trade deal and whether the Dow would reach 30,000. As we write this, oil prices are at an 18-year low of $20 a barrel, airlines are dealing with a 90% drop in passengers, and the Dow is around 21,000.

According to John Hopkins University data, global confirmed coronavirus cases have surpassed 1.4 million with over 380,000 cases in the U.S. alone. Looking ahead, we all are practicing social distancing to flatten the curve. Models from the Centers for Disease Control & Prevention ("CDC") show that the number of cases might peak in mid-April, but these are only models and the state of the coronavirus outbreak remains unclear. However, we should follow the advice of the medical experts by practicing social distancing and staying-at-home policies until further notified. How long it takes and the duration to show that the virus is under control will determine the economic impact. While most medical experts agree that a vaccine will not be approved until 2021, the development of an anti-viral to combat the disease and improve outcomes would drastically improve sentiment and increase the likelihood of returning to normalcy.

"FLATTEN THE CURVE"



Adapted from CDC / The Economist

MR. MARKET

Mr. Market is an allegory created by legendary investor Benjamin Graham to describe what he believed were the irrational or contradictory traits of the stock market and the risks of following groupthink. Mr. Market has gone haywire before—always for differing reasons from the time before—but we have eventually returned to more orderly functioning markets. How long that takes is impossible to know with any certainty while we get through this pandemic and economic shutdown, which is why our investing discipline is so critical—now more than ever. We know that earnings for most companies will be impacted this year. But what about three years from now? We are performing scenario analysis on portfolio holdings and prospective investments, asking how financially leveraged they are in case the current conditions last 6 to 12 months. We are projecting what normalized cash flow will likely be in three years. We are trying to determine if a portfolio company may experience a permanent change in demand patterns—and/or whether it has the balance sheet and business model to positively get through to the other side.

What we know now is, if our estimate of a company's long-term earnings power or intrinsic value is impacted by 15%, but prices are trading down 35% amid a chaotic environment, we are happy to buy those businesses that the market will more properly value in the long run. **Winston Churchill famously said, "Never let a good crisis go to waste."** The recent market turmoil has yielded opportunities to purchase businesses we've long admired—in many cases, exceptional businesses—at discounts that are rarely available. We will continue to do so as opportunities present themselves by putting the excess cash we raised in your portfolio to work.

STIMULUS AT WORK

Risk assets (stocks and bonds) around the world tumbled in the first quarter as governments instituted unprecedented shutdowns to large swaths of the global economy to combat the spread of the deadly coronavirus. The drop to U.S. gross domestic product ("GDP") will likely be monumental, with Goldman Sachs now forecasting a 34% contraction in the second quarter before a sharp rebound later in 2020.

World central banks, led by the U.S. Federal Reserve, have been forced into significant emergency interventions to boost funding and liquidity in credit markets and ensure an adequate supply of U.S. dollars to calm the worst of the anxiety. On the fiscal side of things, the historic stimulus package signed by President Trump amounts to 10% of domestic GDP, far larger and enacted much quicker than the fiscal stimulus of the 2008 financial crisis to mitigate the negative impact to the economy.

OUTLOOK

We are hopeful, like everyone, that the spread of the coronavirus will run its course as quickly as possible and that the number of human lives lost will be limited. In the meantime, we want to assure you that we remain laser-focused on client communication, planning and portfolio management to assure both current income and competitive returns through market cycles. We have taken the current market dislocation as an opportunity to upgrade our holdings into higher-quality companies with a more durable business model.

We expect spikes in volatility through the second quarter as investors assess the near-term spread of the coronavirus and other geopolitical events. While developments in any economic and human pandemic are nearly impossible to forecast, Shorepoint's process remains thoughtful, disciplined and flexible. This is a time when experience matters. Know that the Shorepoint team is working diligently to manage risk and returns as well as position the portfolio for the long-term.

We are all in this together. Remember to take time for self-care and to keep perspective within crisis:

- Don't look at your statements. We are looking for you.
- Don't panic and do think long term.
- Do walk outside and get light on your face.
- Do connect with family and friends
- Sleep
- Do imagine the world 6 months from now because that is what will eventually drive the direction of the markets

Stay safe!