

COVID-19: Q&A

Presented by: The Chicago Partners Team



Agenda

- Current market environment
- Anatomy of a downturn
- Decline recovery chart
- What can we do now?
- What can we do in the future?
- Q&A
- Closing Remarks

PERSPECTIVES

“The market can price things wrong.
Price is what you pay. Value is what you get.”

- Warren Buffet



Current Market Environment

PERSPECTIVES

“The stock market is designed to transfer money from the active to the patient.”

- Warren Buffet

$$M_R = E_G + Y + \Delta P/E$$



Focus today is on Δ in P/E
 $\Delta P/E$ is a function of uncertainty
More uncertainty = lower P/E

Current Market Environment

In the current market environment, we have a highly unusual event:

- The market value of companies has decreased substantially
- Overall, the cash flow generated by these companies is fairly stable and expected to increase after we get through the next quarter or two

2019 Market Value & Income

Market Value: \$3,196,477.41

Estimated Income: 3.19%

Income: \$101,870



2020 Market Value & Income

Market Value: **\$2,563,994.44**

Estimated Income: **4.83%**

Estimated Income: \$123,794

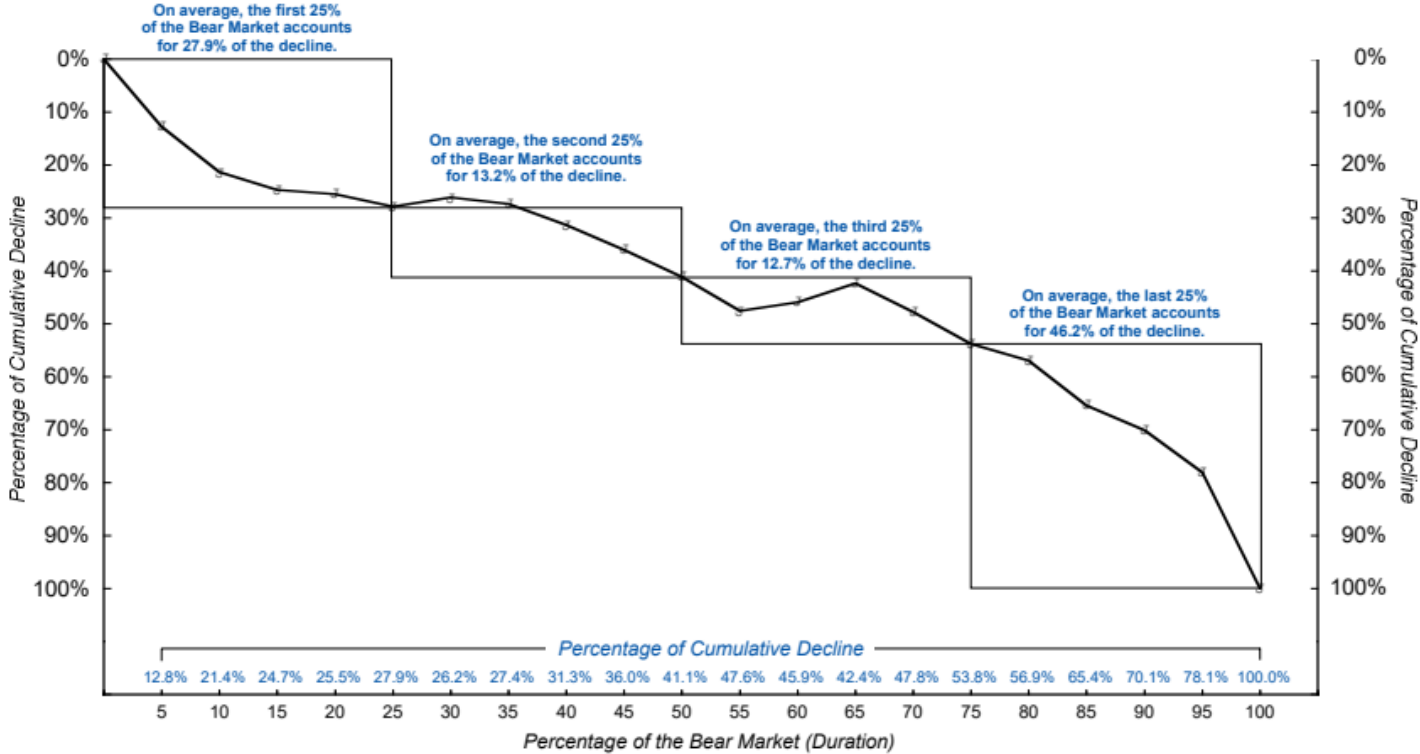
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The Anatomy of a Bear Market

Anatomy of a Bear Market
 On Average, Bear Markets Decline Faster Early and Late
 The Standard & Poor's 500 Stock Index



Decline & Recovery Chart

S&P 500 Total Return Index Forward Return													
	1Day	2Day	3Day	4Day	5Day	6Day	7Day	14Day	1MO	3MO	6MO	9MO	12MO
8/31/1998	3.87%	3.50%	2.64%	1.77%	6.96%	6.96%	6.96%	7.67%	6.41%	22.03%	30.06%	36.63%	39.82%
10/3/2008	-3.85%	-3.85%	-3.85%	-9.37%	-10.35%	-17.17%	-18.14%	-14.36%	-11.97%	-14.97%	-22.18%	-16.49%	-2.80%
11/19/2008	-6.71%	-0.79%	5.64%	5.64%	5.64%	6.35%	10.14%	8.12%	10.34%	-2.63%	14.25%	26.08%	39.25%
3/2/2009	-0.64%	1.76%	-2.56%	-2.42%	-3.39%	-3.39%	-3.39%	7.73%	19.33%	35.67%	43.69%	61.05%	63.15%
10/4/2011	1.84%	3.71%	2.87%	6.38%	6.38%	6.38%	6.44%	9.12%	11.67%	14.33%	25.89%	23.75%	32.98%
1/20/2016	0.52%	2.56%	0.96%	0.96%	0.96%	2.39%	1.28%	2.92%	4.89%	13.72%	18.19%	17.08%	24.86%
12/21/2018	-2.70%	-2.70%	-2.70%	2.12%	2.12%	3.01%	2.90%	4.85%	9.10%	18.76%	23.36%	25.70%	36.12%
Average	-1.10%	0.60%	0.43%	0.73%	1.19%	0.64%	0.88%	3.72%	7.11%	12.42%	19.04%	24.83%	33.34%



What Can We Do Now?

Tax-Loss Harvesting for your taxable portfolios

What Can We Do in the Future?

Historical Portfolios (4G)



Next-Gen Portfolios (5G)



- + Equities
- + Fixed Income
- + Hedged Equity/Defined Outcome ETFs
- + Variant & Alternative Income

Next-generation portfolios evolved to better mitigate volatility.

What Can We Do in the Future?

How much more juice can we squeeze out of bonds?

Running as C15. Run GC for more features.

US Treasury Actives Curve Actions 98) Chart Export Settings Graph Curves

X-Axis Tenor Y-Axis Ask YTM Currency None PCS

Specific 03/20/00 03/20/20 Relative Last 1D 1W Modify Curves & Relative Value

Values and Members Values Members Constituents

I25 Ask YTM US Treasury Actives Curve 03/20/20		I25 Ask YTM US Treasury Actives Curve 03/20/00		I25 Ask YTM (Change) 03/20/20-03/20/00	
Tenor	Description	Yield	Description	Yield	Yield
11)	1MGBM Govt	-0.056			
12)	2MGB2 Govt	-0.023			
13)	3MGB3 Govt	-0.008	Same	5.896	-590.4
14)	6MGB6 Govt	-0.033	Same	6.156	-618.9
15)	1YGB1 Govt	0.086	Same	6.204	-611.8
16)	2YGT2 Govt	0.376	Same	6.506	-613.0
17)	3YGT3 Govt	0.455	Same	6.511	-605.6
18)	5YGT5 Govt	0.586	Same	6.448	-586.2
19)	7YGT7 Govt	0.885			
20)	10YGT10 Govt	1.011	Same	6.181	-517.0
21)	30YGT30 Govt	1.632	Same	6.002	-437.0

What Can We Do in the Future?

Historical Portfolios (4G)



- Equities
- Fixed Income

Next-Gen Portfolios (5G)



- Equities
- Fixed Income
- Hedged Equity/Defined Outcome
- Variant & Alternative Income

Question 1

“The Fed “backstop” to the money market fund industry. In particular, I would like to understand more fully the risks of having short-term liquidity needs parked in SWVXX.”

Answer:

Risk for these types of funds is practically zero.

Question 2

“Automated trading on the VIX. How much of the volatility in the market is being self-perpetuated by automated trading algorithms based on VIX versus true market fundamentals of the market slowdown?”

Answer:

A significant amount of the volatility is generated by algorithmic trading.

Question 3

“Is it wise to adopt to the market direction and trends? If it is wise to follow market direction and trends, how has your investment strategy changed or adopted to the market direction and trend?”

Answer:

The best trend to adopt is maintaining a long-term perspective.

Question 4

“Do you recommend just holding on to your investments until the pandemic slows down?”

Answer:

Yes, unless there is an immediate cash need.

Question 5

“Do you think is it time to begin periodic purchases, even though further drops are probably, but not necessarily, likely to happen?”

Answer:

It depends.

Question 6

“If it is reasonable to begin equity purchases, are you looking at any individual equities as opportunities, or do you think funds would be the best way to go?”

Answer:

Both individual equities and funds (ETFs & Mutual Funds) will provide good opportunities.

Question 7

“Tell us what you know about the April 15 tax deadline and the payment of taxes. Sounds like we have to file but you get to delay payments for a while.

Does this include first quarter estimate? Nothing on the US Treasury site yesterday. I’m feeling like they spitballed this as an idea without writing any regs or guidance. I’m also thinking I’m going to have to extend so TurboTax can get their software in line with this change.”

Answer:

All indications are that any payments due on April 15 can be delayed.

Question 8

“What are your thoughts on the current state of MLP’s/oil?”

Answer:

The current environment for MLPs is similar to the current environment of tech stock in 2000. Tech stocks like drugstore.com were valued at \$1B dollars with very little revenue and no earnings. Today, we have the mirror opposite of that, with pipelines, with robust revenue and free cash flow, that have very tiny valuations. We believe that the low valuations will, similar to 2000, when dot-com stocks lost their value, we believe they will migrate from lower valuations to higher valuations.

As earning season wraps up, operating performance has been better than expected with EBITDA (earnings before interest, taxes, depreciation and amortization) coming in 1.1% higher than consensus expectations and 7.7% higher than the previous quarter. Furthermore, free cash flow is expected to dramatically increase for these companies over the next five years.



Question 10

“What is your outlook on dividends?”

Answer:

The intermediate and long-term outlook is for growth in dividends, over the next quarter or two, could see a slight decrease, but no significantly material decrease, except for specific industries.

Question 11

“How long do you expect a recovery to take?”

Answer:

No one knows.

Question 12

“When will we hit the bottom?”

Answer:

No one knows – this is what we’ve seen in the past.

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11/19/2008	-6.71%	-0.79%	5.64%	5.64%	5.64%	6.35%	10.14%	8.12%	10.34%	-2.63%	14.25%	26.08%	39.25%
3/2/2009	-0.64%	1.76%	-2.56%	-2.42%	-3.39%	-3.39%	-3.39%	7.73%	19.33%	35.67%	43.69%	61.05%	63.15%
10/4/2011	1.84%	3.71%	2.87%	6.38%	6.38%	6.38%	6.44%	9.12%	11.67%	14.33%	25.89%	23.75%	32.98%
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Question 13

“What happens if we have a recession?”

Answer:

Certain industries will struggle, but the government has indicated that they will do everything they can to support those industries.

The market is generally-forward looking, so by the time we are in a recession, it is already priced-in.

Question 14

“What are the long-term impacts on the markets, economy, etc.?”

Answer:

The longer we go from where we are today, the smaller the impacts are. Looking beyond the next 3 to 6 months, the impact will become smaller and smaller.

“If you want to go fast, go alone. If you want to go far, go together.”

-African Proverb



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