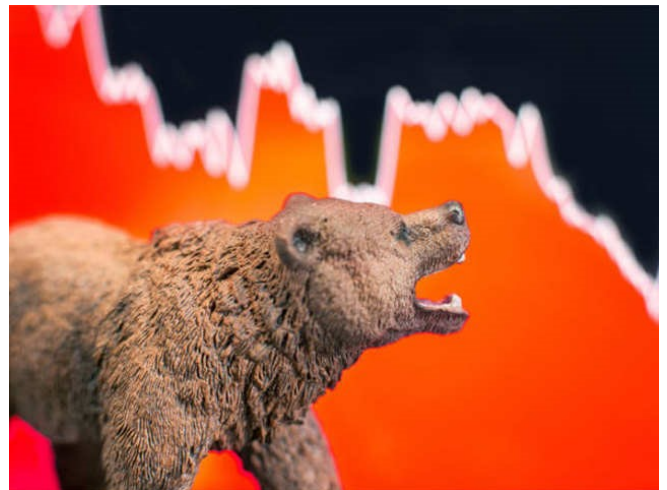


Raymond F. Saleeby, Jr
President

Saleeby & Associates, Inc.

Coronavirus Pandemic Impacts

In the past month, investors have experienced a surreal event. On February 19, 2020 the stock market ended the longest running bull market in history. But approximately one month later, most major stock market indexes are down 30-45 percent as of March 24, 2020 (A Truly Black Swan Event). "It took the S&P 500 only 22 trading days to fall 30% from its record high reached on Feb. 19, making it the fastest drop of this magnitude in history, according to data from Bank of America Securities."¹ In this timeframe, over \$12 trillion of wealth has disappeared according to Wilshire Associates' calculations.² Keep in mind that the \$12 trillion is taking into account the public stock market, not private business or other asset classes that could have lost similar amounts as well. It has been devastating to say the least. Also, one must include high end homes, gold, municipal bonds, corporate bonds, and other asset classes which were traditionally safer investments but also lost substantial amounts. For example, municipal bonds are viewed as safer than most investments, yet they are experiencing increased risk and potential business loss. "Still, the iShares National Municipal Bond ETF (MUB) ended Friday more than 13% below where it was in early March. Closed-end muni funds lost 25% or more."² One could easily say our country is in shock and panic mode as are many other countries throughout the world.



How did we get to this point, one may ask? It appears this crisis has gone through various stages with the first being tied to Chinese consumption of exotic animals and livestock and how they process and distribute many of these animals. Their government is allowing it to happen with very little interference by authorities. One can determine that it started as a food safety crisis, that turned into a health crisis, that turned into an economic crisis, and now we are feeling the systemic risk with lack of confidence, liquidity and fear leading to full blown panic. At this point, we need a strong government intervention, not only for monetary policy but for fiscal policy as well. Unfortunately, on the fiscal side, that involves politics which we know has not been good the last several years. I believe a crisis like this will lead the politicians to a mutual agreement. It appears the Republicans want to help corporations with employment to keep the economy going strong and the Democrats want to help individuals with layoff hardships and money to live on. Especially since 40% of the population cannot write a check for \$400 without selling assets or borrowing money. This demonstrates how fragile and critical this stage is right now with massive layoffs expected to occur in the next couple of weeks.

Oil Quarrel: Russia vs. Saudi Arabia



As if this virus was not bad enough, we are seeing a quarrel between Russia and Saudi Arabia. Warren Buffett called it a one-two punch to the stock market. One, Russia is not an OPEC country like Saudi Arabia which is a major bellwether for OPEC adjusting their supply to balance markets. Saudi Arabia thinks Russia cheats too much and basically wants them to share with more concessions to lower production and potentially increase prices. Especially after the world economies are slowing down dramatically from where they were before. In addition, both these countries want the United States to feel the effects of this as well. In

my opinion, Saudi Arabia and Russia are dumping oil onto the market below their cost in turn hurting each other and hurting the U.S. shale producers. Right now, all parties are in a very weak position and must borrow incredible amounts of money to deal with lower oil prices.

For most U.S. companies, there are few alternatives but to shutter production and/or go into survival mode. I believe in the past 10 years, the oil and gas industry has been a major growth driver for the United States. When it peaked, the U.S. was producing more than 13 million barrels a day which is more than Saudi Arabia or Russia, which is a remarkable feat but obviously this situation has changed dramatically. In my opinion, Russia and Saudi Arabia also want to hurt alternative energy companies like Tesla which are utilizing batteries and lithium to enhance the electric car experience. The biggest consumption of oil is in the transportation industry; thereby, effecting the longer-term viability of oil as a major source 30-50 years from now. I believe there are many energy companies that will not make it due to current oil prices and their weak balance sheets. Whereas Saudi Arabia and Russia governments have the potential to absorb the punishment long-term.

My guess is that the oil and gas industry is not politically connected in the U.S. to be deemed an essential need for our country. Therefore, I do not foresee companies getting a substantial capital infusion to stop the bleeding. Except for Boeing, who has seen its share prices go down 68 percent, but is considered essential to our country's future and our airline industry. Most people agree that these aerospace companies are a necessity for our country, efficiency, productivity, manufacturing and our lifestyle. I believe our government will intervene by giving them capital in

exchange for equity, which is similar to what they did with banks during the 2008 credit crisis. Currently, we are not seeing the automotive companies ask for the governments help, but they will likely experience a softening with the consumer having to worry about his/her jobs. Numerous industries are asking for government support, but many will be turned down with a bleak outlook. Without government support, I believe the survival rate will not be favorable for restaurants, retail, movie theaters, tourism, travel companies and energy. If this trend continues, I believe 25% of restaurants and 10% of retail in our country may never reopen.

A graphic with the text "MANAGING THE IMPACT OF CORONAVIRUS" in large, bold, black letters on a light background. The background shows a blurred image of people wearing face masks.

**MANAGING THE
IMPACT OF
CORONAVIRUS**

Coronavirus: Finding Solutions

As you can imagine, the stock market generally does not do well with uncertainty. Since the coronavirus is new, we do not know if it will be a long-term problem or a one-time event. SARS and Ebola tended to be a one-time problem, whereas, the flu and HIV tend to be more of a long-term one. Either way a vaccine is urgently needed. One benefit we have today is the ability to use artificial intelligence to dramatically speed up the process to help find a solution using super computers. They are not only used for drug development but for many other things. For example, they can bring focus to the most promising alternatives that exist. I believe we need to act soon and essentially shutdown the country for a couple of weeks so we do not have exponential growth of this virus which will overtake our healthcare infrastructure and cause higher unemployment.



I believe there has been many mistakes made in this crisis starting with the President and all the way down the chain. In my opinion, Bill Gates appears to be the most knowledgeable person on the subject but has not received the attention he deserves despite his discussion about a similar situation for a long time. I believe our country is arrogant for not paying attention to how well South Korea handled the virus and I think it is hurting our chances to contain the virus. They have successfully tested many more people than we have because they have less bureaucracy. The stock market has already lost \$12 trillion. I believe a two-week temporary shutdown will help along with a government backstop. To succeed, we will need to take short-term pain for long-term gain. I think diminishing virus cases would cause the stock market to reexamine the uncertainty in a different way thereby leading to potentially higher stock prices. Additionally, we need a fiscal stimulus program that will backstop employees from being laid off and give companies the ability to stay in business and be around when the rebound occurs. If this package is not provided soon, I feel the pain will be significantly worse while social issues will be exacerbated including more crime.



Many clients have asked me if I have seen this before. I have been a license financial professional for 37+ years and I have seen at least five major corrections. "The S&P 500 has had 6 initial drawdowns of greater than 30% since the late 1920s."³ "In addition to these 6 drawdowns of over 30%, there are 4 occasions where the S&P 500 had a drawdown of over 40%, and 3 occasions where it had a drawdown of over 50%."³ Each of them are different yet have some similarities. One thing in common is that each time we see the market go down there is great uncertainty about the future and the market cannot quantify that uncertainty to any degree or predict how long it will last, how hard will earnings be effected, and if it will lead to systematic risks. There are many worries that investors worry about. When the correction occurs, generally what I have seen is a lack of liquidity where investors scramble to raise cash, pay off margins, loans, and debt and panic and act on emotions vs. rational behavior. There is very little fundamental analysis when selling. We need to realize that we have experienced similar issues in the past which we were able to overcome. America has many attributes that the rest of the world envies, including a great healthcare and medical infrastructure, capital, freedom, and intelligence and perseverance. We are good at overcoming adversity but not always good in our timing.

Coronavirus: Impact on Our Lives



I believe there will be many repercussions on the virus and how we look back on what had happened. Below are some potential impacts of the Coronavirus, from my perspective, and how it might change our lives:

1. The internet will play a larger part of our lives.
2. There will be more advice given by more professionals via teleconferencing, especially in healthcare.
3. Many companies will bring back manufacturing to the U.S. to control more of the supply chain.
4. Citizens will be more cognizant about health hygiene, washing their hands more often, and be more aware of germs and their surroundings.
5. More people will be able to work from home even with the risk of declining productivity.
6. New food regulations may come about.
7. Better handling and tracking along the supply channels.
8. Less travel overseas and less travel for people with medical conditions for a while.
9. New enticements to convince the consumer to come back for theaters, public gyms, cruise lines, sports locker rooms, churches, ethnic restaurants, etc.
10. More online entertainment.
11. The oil industry will likely never be the same.
12. More delivery services for food, retail and many other products.
13. From a financial prospective, there may be fewer corporate buybacks and companies will be more cognizant of their balance sheets.
14. This crisis may also exasperate the wealth gap leading to future problems.
15. Millennials risk appetite may change after seeing their parents go through two major corrections.

Conclusion

In conclusion, I will continue to monitor and adjust portfolios for investment opportunities that show the right characteristics for investing and good balance sheets. Overall, the systematic risk to our country and the rest of the world cannot be underestimated; however, America's freedom, past experience, technology, resilience, and our ability to get together in times of crisis cannot be underestimated. I believe good companies with excellent management and balance sheets will eventually rise to the top, survive and thrive and investors patients will be rewarded long-term. I am proud to be an American and believe America works best when its back is against the wall. "Warren Buffett likes to say his investing strategy is 'to be fearful when others are greedy and to be greedy only when others are fearful.' The question is what he might buy now when the market is fearful."⁴ Let's say a prayer for our soldiers, who now include our doctors, nurses and other healthcare workers as we fight this invisible enemy.
God Bless & Stay Safe!

Optimistically Yours,



Raymond F. Saleeby
President

Footnotes

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Did You Know

11 pandemics that changed the course of human history, from the black death to HIV/AIDS - To Coronavirus

<https://www.businessinsider.in/slideshows/miscellaneous/11-pandemics-that-changed-the-course-of-human-history-from-the-black-death-to-hiv/aids-to-coronavirus/slidelist/74695587.cms>

Bill Gates says US lockdowns should have come sooner to slow the coronavirus' spread, and that social distancing 'can get the cases down to low levels'

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Regeneron's CEO says we could have a Covid-19 treatment 'Quickly'

<https://www.barrons.com/articles/regenerons-ceo-on-the-search-for-a-coronavirus-treatment-51584468863>

Warren Buffett discussed Apple, bitcoin, coronavirus, and Bernie Sanders in an interview this week. Here are his 18 best quotes

<https://markets.businessinsider.com/currencies/news/warren-buffett-best-quotes-apple-bitcoin-coronavirus-bernie-sanders-stocks-2020-2-1028950623>

See how the phone has changed since Alexander Graham Bell's 1876 invention

<https://www.businessinsider.com/history-phone-photos-2017-6>

US Alzheimer's diagnoses tripled among 30- to 64-year olds according to a Blue Cross and Blue Shield analysis

<https://www.businessinsider.com/alzheimers-rates-tripled-for-younger-us-adults-2020-2>

The Trump-Bloomberg New York Story: Public Warmth, Private Disdain

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Inflation is at historic lows, so why do so many things seem so expensive?

<https://fortune.com/2020/02/13/personal-inflation-rate-cpi-why-is-college-health-care-so-expensive/>

Most Americans point to circumstances, not work ethic, for why people are rich or poor

<https://www.people-press.org/2020/03/02/most-americans-point-to-circumstances-not-work-ethic-as-reasons-people-are-rich-or-poor/>

A New York biotech company is working to make an antibody treatment for the coronavirus

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An intensive-care expert broke down just how contagious the coronavirus is, showing how one person could end up infecting 59,000 in a snowball effect

<https://www.businessinsider.com/coronavirus-vs-flu-social-distancing-infections-spread-explainer-video-2020-3>

Warren Buffett discussed coronavirus, Coca-Cola, and past market crashes in a recent interview. Here are his 12 best quotes

<https://markets.businessinsider.com/news/stocks/warren-buffett-berkshire-hathaway-12-quotes-coronavirus-coke-market-crashes-2020-3-1029019507>



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Saleeby & Associates, Inc.

Achieving your goals is our passion

11301 Olive Blvd.
Creve Coeur, MO 63141
Phone: 314-997-7486
Fax: 314-997-1417
E-mail: rsaleeby@cutterco.com

We're on the Web!
saleebyandassociates.com

