LaFleur & Godfrey
PRIVATE WEALTH MANAGEMENT

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The New Year 2020 so far has been one for the ages. COVID-19 news flow has been scary, depressing and relentless. It has changed the world as we know it and there will no doubt be long-lasting economic, market and social implications. We have a 'new normal'. 'Social distancing' and 'flatten the curve' are new national taglines. Who would have thought at the beginning of the year that social distancing would ever become preferred by family, friends, clients and co-workers? Certainly not us.

Isolation, and non-stop negative news flow, oftentimes has a cascading effect. It can lead to uncertainly, then fear and unfortunately panic-led volatility...especially in the stock market. Case in point, March experienced the greatest volatility since the 1930s with 8 trading days of 4-10% swings. Most of these days were negative which resulted in the quickest bear market (>20% drop) in U.S. stock market history. That decline was followed by the fastest recovery and bull market (>20% gain) since the 1950s! If there is anything to be learned from the recent market action, it is virtually impossible to time and trade the market.

There have been many economists on television lately using letters to describe the type of economic recovery we should expect. The most common are V, U, W and L. While we are hopeful for a V-shaped (snapback) economic recovery, we believe it is more likely we experience a U-shaped recovery with 1-2 quarters of poor economic data (the bottom of the U) followed by firmer data in the 4th quarter. This, of course, is predicated on the vast majority of Americans returning to work along with increased COVID-19 testing, treatment options and vaccine optimism in the coming year. We believe W-shaped (multiple infection and economic waves) and L-shaped (prolonged recession) economic scenarios are less likely for a variety of reasons.

Many people have tried to compare today's environment to the Great Depression. We feel this comparison is not appropriate. First, it was bad government policy that drove us into the Depression and other policies during the Depression that contributed to its length. In this case, the decline is a man-made response to a medical crisis. National and state governments have flicked the "off" switch on the economy. Secondly, the current fiscal and monetary response has been unprecedented, swift and appropriate. Specifically, the $2.2 trillion CARES Act provides critical support to both out-of-work consumers and small businesses which drive the majority of our economic growth. Direct payments to the unemployed and funding to small business owners will need to increase the longer our economy remains shut down. Discussions are ongoing to add another $250 billion to the original $350 billion commitment to the Paycheck Protection Program. Thankfully, a sense of urgency has replaced complacency in Washington D.C., which we believe will result in additional pro-growth initiatives.

As this response has been unprecedented, we cannot know all of the long-term economic costs that will result from trillions of dollars of additional short-term government loans and spending. Post-recovery, we feel the current fiscal indulgence will eventually need to be replaced by significant fiscal discipline and budgetary belt-tightening. The time for that is not right now. We strongly believe the Federal Reserve, Congress and the Administration are taking all the necessary steps to properly address this crisis. However, it should surprise no one that the price to pay will eventually be much higher taxes for our children and grandchildren to bear for several generations. This will be a headwind to growth in the long run.

So, you may ask, is the current economic and market environment even investable at this point? We think it is. First and foremost, there is a saying on Wall Street: Don't Fight the Fed! Given the significant policy response, we couldn't agree more. It is likely we will be able to restart our economy and change market sentiment in the coming months. Secondly, record low interest rates along with minimal inflation favor stocks versus bonds. With the 10-year U.S.

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Treasury bond yield down from 3.2% just eighteen months ago to 0.75% today, several strategists are calling this a T.I.N.A. (There Is No Alternative) investing environment. We tend to agree that high-quality stocks are the best alternative right now, but we have seen some attractive opportunities in select fixed income markets lately. Finally, most of our clients are familiar with our Mega Trends approach to investing. In our new normal environment, we are increasingly confident that mega trend sectors of our economy will remain priority spending areas for government, consumers and business. The federal government is likely to increase defense appropriations to protect our homeland. This will benefit blue chip defense stocks. The aging Baby Boomer population will continue to need orthopedic surgeries, cancer treatments and pharmaceuticals. It is likely that the diagnostic testing market will expand in the coming years and your personal healthcare data will become commonplace on your iPhone and watch. Select healthcare companies will be long-term beneficiaries. We also see Gen-X and Millennials needing more flexibility to work remotely from home. Video conferencing demand will explode. Even more data will be sent to the cloud driving additional demand. Businesses of all sizes will need to make additional tech infrastructure investments to make all of this happen. Therefore, the tech sector will also be a winner in our new normal. It is clear to us that disruption is upon us. This creates many opportunities for us to invest and find the next innovators & disruptors. A long-term perspective will be required. As Warren Buffett likes to say "The stock market is designed to transfer money from the active to the patient". We could not agree more.

We would be remiss if we did not express our sincere gratitude to all of the healthcare workers out there fighting this pandemic . We are truly humbled by their unbelievable sacrifice during these difficult times. Thank you from the entire LaFleur & Godfrey team!!!

Sincerely,

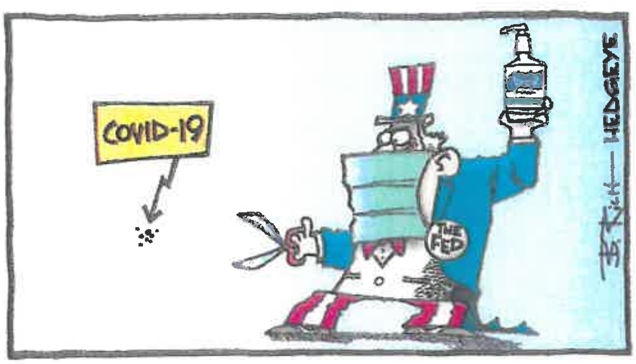
Dan Van Timmeren
Partner

John Koczara
Partner

Pepper ... And Salt

THE WALL STREET JOURNAL

"I enjoy the simple pleasures - the setting sun, a glass of wine, the Dow resuming an all-time high."



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