HIGHTOWER
VWG Wealth Management

VWG Wealth Management 1st Quarter Review

Executive Summary

- The global spread of COVID-19 delivered a powerful shock to global asset markets. The S&P 500 Index suffered its fastest 30%+ drop from record highs in its history. For the quarter the benchmark index for large U.S. stocks lost 20%.
- Separately, the early March Russia-Saudi crude oil price war further unnerved stock and bond markets, accelerating the broad selloff.
- Typically stable relationships within the credit markets were disrupted, as a variety of market participants simultaneously rushed for quick liquidity. Dysfunction spread throughout the bond universe, affecting the pricing and trading of even the highest quality debt.
- The Federal Reserve and Congress moved quickly in response to the crisis, instituting massive stimulus and policies designed to alleviate stress in credit markets, and to soften the damage from an abruptly slowing economy.
- VWG maintains that most clients should make few investment changes over the next few weeks. There is very little clarity on the progression of COVID-19, and on the effects of widespread business shutdowns, job layoffs and terminations. Engage your VWG advisor to review your financial plan before making any major financial decisions. Your plan should be updated to reflect any significant life changes.
- Longer-term we are cautiously optimistic. There will be opportunities to strengthen portfolios and plant the seeds for potential future gains.

Review of the Markets

It is difficult to put into words the abrupt phase shift that has occurred – to our daily lives, our families, our healthcare providers, almost all of humankind – since the stark reality of the COVID-19 pandemic has set in. We are living in an entirely different world from what we knew just a month ago. Entire countries, state and local governments, small and large businesses, economic outlooks, and financial markets have been deeply shaken. While still in the midst of this crisis, it is far too early to accurately assess its intermediate and longer-term ramifications.

As we conclude the 1st quarter and look forward, VWG's dominant focus is on the progression and hopeful containment of the disease, and on the many lives who are being tragically affected. Our thoughts and prayers are with all of our clients and their families, and people worldwide that are being afflicted by this terrible virus, and by the fear of its invisible spread.

In review of the 1st quarter performance of various asset classes, data without the accompanying context is meaningless. Per Strategas Research's Chris Verrone, "in an asset selloff this violent, actual numbers don't matter as much. It's about price levels."

The global spread of COVID-19 delivered a powerful shock to global asset markets, as they confronted the disease's damaging health and economic effects. Readily-traded stocks and bonds sold off brutally, in a rush to the door for safety and liquidity. The S&P 500 Index suffered its fastest 30%+ drop from record highs in its history. The CBOE Market Volatility Index (VIX), a measure of expected price fluctuations for the S&P 500 Index, rose to levels not seen since October 2008. For the quarter, the S&P 500 Index, a benchmark index for U.S. large stocks, finished down 20%. Smaller U.S. stocks (Russell 2000 Index) fared worse, dropping 30.9%. International stocks of developed markets lost 23.5%, as measured by the MSCI EAFE Index. Even gold briefly dipped, dropping 12% in only seven days (NYMEX Gold continuous futures contract).

The Russia-Saudi crude oil price war dramatically accelerated the selloff. On March 6 Russia refused to agree to proposed OPEC production cuts. Saudi Arabia swiftly reversed their position, raising output and slashing prices. West Texas Intermediate Crude (measured by the NYMEX continuous futures contract) dropped a whopping 32% in two days. This sent massive waves throughout stocks, and particularly corporate bond markets, as energy-related debt was radically re-priced.

Bond and credit markets fared no better in the downdraft. No class or sector was spared. Per Bespoke Research Group, "typically stable market relationships dissolved into chaos not seen since the 2008-09 financial crisis, thanks to problems in finding repurchase agreements (repo), trading counterparty liquidity stresses, highly-leveraged relative value trades blowing up, and dysfunction among the highest-quality Treasury, corporate and municipal bonds, and fixed income ETFs holding them." A very large national tax-free money market fund had to temporarily instill sales barriers for their largest holders.

Fortunately, the U.S. Treasury quickly realized the damage this indiscriminate selling was causing. On March 23 they announced the purchase of unlimited amounts of U.S. Treasuries and mortgage-backed securities, "to support smooth credit market functions." Other programs were established to help support some types of asset-backed securities, municipal debt, corporate bonds and commercial paper.

Portfolio Strategy and Asset Positioning

Stanford University's Robert Sapolsky's extensive research shows that under severe stress, we tend to become more impulsive and less reflective. Our time horizons shorten, making it difficult to consider the future consequences of our present actions. Personal and collective stress sets the stage for poor decision-making. Getting sufficient sleep, eating right, and regularly exercising can help manage stress. Staying connected to family, friends and loved ones helps keep us centered. Taking scheduled, timed breaks from the television and internet "information and analysis" barrage is very helpful. In tough times, simple things matter more than ever.

VWG Wealth Management is here to help. If you are concerned about your financial situation in light of the COVID-19 crisis, or are contemplating a significant portfolio change, please work with us to review your financial plan. The plan will provide some objectivity, and will maintain focus on your long-term goals. If significant life changes have occurred or if your objectives have changed, your plan should be updated. VWG can help by showing different scenarios, evaluating alternative lifestyle, accumulation, investment and distribution approaches that might be taken to meet your long-term needs. Seeing how your plan changes under different conditions is extremely valuable. It can help alleviate some of your concerns. Breaking down your financial assets into short-term and long-term needs can also help properly frame the discussion and keep you on track toward meeting your goals.

For financial assets, VWG expects the near future to be marked with great swings and uncertainty, as the COVID-19 statistics and immediate fallout to the economy ensue. Debt expert Canyon Partners' CIO Todd Lemkin believes that, "although not expected to occur with the same velocity, the de-levering and forced selling is not complete." VWG maintains that for at least the next few weeks, doing less is preferable to doing more for most clients. Sensibly increasing cash makes sense for those facing family, employment or business uncertainty. Our economy is in unchartered territory, and it appears that gaining any clarity is a few weeks away.

Although patience is required, we do believe that there will be opportunities to take actions over the coming months that could add significant value for our clients and their investment portfolios. We have begun, and will continue, to take the opportunity of improving the quality of our holdings. We will be making an initial round of tax-loss harvesting in taxable accounts. In both cases we will not be changing net exposure to stocks, unless a specific client's requirements or risk profile dictate.

Longer term we are cautiously optimistic. Although the number of people being directly and indirectly afflicted by the COVID-19 pandemic is heartbreaking, we believe this crisis will be overcome. The massive amount of global stimulus and support already announced is unparalleled. It is already greater than the entire amounts provided throughout the 2008-09 financial crisis. Expert economists believe that the speed and size of this intervention will help prevent lasting economic damage. They also believe that interest rates should remain low for a long period. In such an environment, the equities of quality durable companies, possessing solid balance sheets and superior business models, will be a favored asset class. One should never count out American ingenuity and entrepreneurship.

Govt Fiscal Stimulus And Central Banks Liquidity Injection 2020 (Feb to Mar)

	$ Bln	% GDP
U.S.	$4255	19.8%
Eurozone	$1580	11.9%
Japan	$184	3.6%
U.K.	$425	15.5%
Others*	$2694	
Total	$9138	10.6%

*incl RoW and IMF & WB

Chart and data courtesy of Cornerstone Macro

The CARES Act Suspends 2020 Mandatory IRA Distributions

The big and broad Coronavirus Aid, Relief, and Economic Security Act, or CARES Act, includes several provisions related to retirement accounts. Many of our clients may be able to incorporate these into their personal retirement and tax planning for this year. These include:

- Required minimum distributions (RMDs) are suspended for 2020. This includes initial RMDs for those reaching age 72 (this was recently changed from age 70 ½), and for inherited IRAs.
- Those who have already taken their 2020 RMDs can return these, thereby eliminating the tax bill, provided they return it within 60 days of its distribution, and no other 'temporary' withdrawal and return of IRA funds has occurred within the past 365 days.
- Penalty-free withdrawals from IRAs and defined contribution plans are allowed up to $100,000 for adverse COVID-19-related financial hardship. Those doing so will have three years to pay the taxes on these withdrawals.
- Maximum loans from employer-sponsored retirement plans have been increased to the lower of $100,000 or 100% of the vested account balance, as long as these are COVID-19-related. The due date for repayment of this loan will be delayed one year.

There are several nuances and strategies that can be considered to maximize the potential benefits of these law changes. VWG will be reaching out over the coming weeks to our clients taking RMDs to discuss these. Please contact us if you have any immediate questions or concerns.

Staying "Cyber-safe" During Coronavirus Pandemic

The coronavirus pandemic delivers a number of new cybersecurity risks. Due to workers around the world adopting remote work arrangements and hackers exploiting the evolving situation, many businesses and individuals are experiencing an increase in fraudulent emails, text messages and voicemails. At VWG we continue to take extra precautions to secure your information.

Due to this heightened security situation, please join us in following these precautionary steps to be alert and aware of malicious attempts:

Best Practices Due to Increased Cybersecurity Threats:

- Stay wary of COVID-19 related phishing campaigns, especially fake alerts from WHO or other organizations promising access to cures or safety information. Double check the email address before you open emails or click links.
- Use multi-factor/dual authentication wherever possible for your devices and applications. Increase use of dual authentication on any banking/account related applications and websites. If you access your accounts on Fidelity.com, click here to add an extra layer of login protection: https://www.fidelity.com/security/soft-tokens/overview
- Beware of phishing voicemails (vishing) through your email or mobile device. Pay attention to unknown links disguised as voice mails.
- Remain conscientious when using text messages, social media and any instant messaging as there is an increase in malicious texts being sent through known contacts. Always think twice before clicking a link or resetting a password.

Best Practices When Working with VWG Remotely:

- You can continue to call your advisor through our direct numbers. You can also call our main office number (571) 406-4700 to either leave a message in our main mailbox, or contact your advisor through a dial by name directory.
- If you are calling from a number not in our database, your VWG advisor will ask to call you back on an authorized number.
- Stay vigilant to recognize changes in communication styles from your advisor or requests for different methods of communications.
- Please contact us immediately if you are concerned that your email, or your account information, has been compromised.

We're Thinking of You, Your Families and Your Loved Ones

And we are steadfast beside you during these challenging times. VWG's primary focus has always been, and always will be, on you and your family's long-term financial health. In the midst of this unprecedented turmoil and uncertainty, we remain vigilant to potential perils and opportunities, while keeping our eyes on the horizon. Stay safe, and stay healthy!

Regards,

VWG Wealth Management

Suzanne, Ashley, Rashmi, Kay, Lynette, Ona, Michelle, Ryan, Ryan, Susan, Marnie, Justin, Elana, Patricia, John, Rick and Jeff

Who we are

** Index Data Sourced from FactSet Research, Morningstar*

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circumstances and can change at any time without notice. Clients are urged to consult their tax or legal advisor before establishing a retirement plan.

This document was created for informational purposes only; the opinions expressed are solely those of VWG Wealth Management, and do not represent those of Hightower Advisors, LLC, or any of its affiliates.The 2019 Financial Times 300 Top Registered Investment Advisors is an independent listing produced by the Financial Times (June, 2019). The FT 300 is based on data gathered from RIA firms, regulatory disclosures, and the FT's research. As identified by the FT, the listing reflected each practice's performance in six primary areas, including assets under management, asset growth, compliance record, years in existence, credentials and accessibility. Neither the RIA firms nor their employees pay a fee to The Financial Times in exchange for inclusion in the FT 300.

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