First Quarter Report 2020

LUCIEN, STIRLING & GRAY ADVISORY GROUP[SM]

"Smart Decisions About Serious Money"

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A Message From The President

Thomas G. Twombly

Like many people recently, I've spent some time thinking about what's important as we grope our way through this unnerving new existence. I've wondered what lessons we might draw from history, and what we could learn from the experiences of others that came before us. I have a few thoughts I'd like to share. I trust you'll forgive me that they're not primarily centered around financial wealth.

First, I'd like to say a sincere "Thank you" to all our clients and friends who've made such a special point to wish us well, to send us special acknowledgments of appreciation, or to ask us how *we're* doing in this environment. The genuine concern you have shown for our well-being is humbling.

Even amid the challenges and heightened anxiety every single one of you is wrestling with, and despite the heavy responsibility we ourselves are feeling in this uncertain and unknowable world, it's impossible not to feel a deep sense of gratitude to be surrounded by such a warm and caring group of human beings. We couldn't be more fortunate than to have clients like you. I mean that. Thank you.

Second, I hope to dispel a misperception we've heard in some of those conversations. Namely, that we must be flooded with such a high volume of worried calls from *other* people that we don't have the time to have an in-depth conversation with *you*. I assure you this is not the case. We are available, and we want to speak to every single client and friend who would like an ear or a sounding board.

Between six advisors and six professional administrative staff, we currently serve 338 households. Like many of you, we're certainly having to develop new skills, like how to interact remotely for a period. However, we have purposefully kept our client relationships to a manageable group of fiscally responsible people whom we like, trust and respect precisely so we would never get overwhelmed–especially during challenging times. We are not overburdened. We're here to help you think, plan, adapt and respond, so please don't hesitate to reach out.

Now to some personal thoughts. I have a portrait that hangs in my living room (see page 4). It was painted in 1919. It came into my care about 20 years ago, after my great uncle died, and the house that he and my great aunt had lived in for many decades was sold so she could move to Austin to be close to her family.

In it, two beautiful young sisters sit close together, their long curly hair tumbling down their shoulders, reflecting the warm light. They gaze quite somberly at the viewer, creating an interesting visual juxtaposition as they run their fingers absentmindedly through the fluffy orange fur of the sleeping tabby cat that's stretched out lazily in the lap-folds of the older sister's dress.

The younger girl, my grandmother at about the age of 9, is on the left, seated perhaps on a very low stool. Her sister Helen, who was probably 12 at the time, sits cross-legged on the floor, slightly below and to the right, cradling the snoozing cat in her lap. Neither sister smiles. They both look somewhat guarded, but Helen bears a particularly haunting, pained expression on her pale, innocent face.

Frequently, friends who come to our home comment on how beautiful this painting is. The artist clearly possessed great talent and a discerning eye, and I have never become bored of searching for new, unnoticed details she included. It is indeed a family treasure.

But it's what's *not* included that's also significant. It's a profound *absence* that provokes the real questions, especially now. Missing from this treasured painting is their beloved older brother, Jimmy, their parent's first-born and only son, who died at the age of 14, during the very early stages of the flu pandemic that had swept tragically through their world just a handful of months earlier.

As I think about the tragic loss, the disrupted lives, and the fear, uncertainty and loneliness so many people are dealing with now, and as I contemplate the commonality that surely existed in that time, I struggle with the range of emotions that must have compelled my great grandparents to have the portrait made.

Obviously, I never knew Jimmy. I wasn't born until 44 years after his death, and it was probably another 10 years after that before I could even begin to comprehend the notion of his loss. I have no memory of my great grandparents either. But I knew my grandmother and my great aunt for many years, well into my adulthood. Jimmy was a regular presence for all that time – in impromptu reminiscences, in family stories, and in traditions and keepsakes. They had other sketches and a few photographs of him, and my youngest brother James bears his name.

What I can tell you is this: my grandmother and my great aunt Helen were both life-long investors – in the truest sense. Despite the fear they surely confronted at the tragic loss of their brother, World War I that preceded it, the Great Depression and World War II that followed it, and all the other myriad trials and tribulations that marked their adult lives until their own deaths in 1989 and 2000, they deliberately built wealth in all its forms. They lived below their means and invested patiently in financial assets, to be sure. But they also invested steadfastly in the well-being of their families, their friends, and their communities. They very purposefully built legacies – financial and otherwise – to have impact well beyond their lifetimes. They were deliberate stewards, because they knew others would follow. It's a value they instilled in others, and one we should all share.

None of us is guaranteed anything in the present environment. In the long run, however, the majority will survive this epidemic. Remember that. Most will come through the current darkness and emerge on the other side. We don't know now who will be among that group, and none of us individually should feel any sense of certainty. But a large majority of humanity will eventually come out of this. We will come back together, because that's what human beings do – we are communal. We'll congregate in families, in friend groups, in religious communities, sporting events and workplaces. Companies of people will reunite, and they'll strive again to do, to be and to create. It's that long term perspective that keeps calling us to invest, because even if we, individually, don't see that, someone we care about will.

Here is one final thought to share: my parents once expressed to my great aunt Helen how lucky they felt to have a close-knit family and so many trusted relationships. She assertively replied: *"It's not luck. It's recognizing wealth when you have it, and <u>never</u> letting go."*

I couldn't agree more.

Thank you, again, for your confidence and trust.

Thomas G. Twombly
President

Investment Commentary

The most forthright thing we can do at this point is to start with a statement of humility: we don't know *what* the future holds. Several of us here have careers that span upwards of twenty-five and thirty years in the investment profession. We have valuable experience guiding people through multiple economic recessions and deep bear markets. But none of us has ever dealt with anything quite like what we're enduring now.

This is a deeply disconcerting emotion that many of you share, I'm sure. We feel a tremendous sense of responsibility to coach each of you prudently and successfully through this incredibly trying time, and then beyond. But the truth is that we are experiencing a sense of radical uncertainty that is impossible to quantify. We must be ready for anything. That ambiguity is reflected in our decision-making process.

Before turning our attention towards the future and detailing those thoughts, it's worth conducting a brief re-cap of what has taken place in the last several months – not to endlessly rehash the news, but to try to gain some useful perspective on where we are now and how we've gotten here.

There can be no doubt that the first quarter of 2020 was a brutal experience; for our society, and for financial markets. Stocks fell sharply across the board, as did virtually every other asset class except for long-term U.S. government bonds, which were driven to interest rate levels never before imagined by panicked buyers willing to pay almost any price to escape the maelstrom.

By the end of the quarter the large-company S&P 500 had settled at a -19.6% decline, but that hardly told the full truth of what investors endured in the interim. Between February 19th, which marked the all-time high for the index, and the middle of the day on March 23rd, which marked the intra-day low for the quarter, the index plunged by a whopping -34%. "Breathtaking" is hardly the word for it. Mid-cap and small-cap companies fared even worse during that record-breaking, 23 trading-day plunge. They closed respectively at -27.1% and -30.6% for the full period, despite a strong rebound from the nadir of March 23rd that continued into the final week of the quarter.

The technology, healthcare and consumer staples sectors held up far better than all others, reflecting the boost in spending those areas attracted as a result of the coronavirus lock-down. But with declines in all three sectors reaching the -12% range, it was still cold comfort. By contrast, however, the energy sector dropped by over -50%, as a price war in oil set off by Russia and Saudi Arabia and a sudden virus-related decline in travel set the stage for the worst performing sector. Financial, industrial and materials stocks were also hit unusually hard, dropping by -32%, -27% and -26% respectively.

Interest rates dropped precipitously during the period. The 10-year US Treasury Bond, which started 2020 at 1.92%, finished the quarter yielding a scant .70%. And the rate investors were willing to accept for a <u>30-year loan</u> to the US Treasury fell to 1.35%, something never before seen in our history.

The Government response has also dwarfed history. The Coronavirus Aid, Relief and Economic Security (CARES) Act that was signed on March 27th provided *$2.3 Trillion* dollars of economic stimulus to try to contain the damage. At this writing, there is a strong possibility there will be more yet to come, but that amount alone is **more than three times** the size of the aggregate stimulus package implemented by the previous administration in addressing the financial crisis of 2008-2009. Ponder *that* for a moment.

We're finishing this writing several weeks into April due to all the pressing challenges we've needed to address recently, so we've had the benefit of witnessing the recent financial market response to that stimulus, as well as noting the evolving socio-political mood in the United States.

We've welcomed the optimistic mood we've seen in equity markets since March 23rd (some have even taken to proclaiming it a new bull market) but we haven't used it to add aggressively to beaten-down stocks. Instead, we've chosen selectively to reallocate, and to upgrade the quality of overall holdings, because we believe we may be in for a more challenging future environment than the present mood suggests. We hope we're wrong. We hope the health threat we all face passes quickly, and that everyone can get back to work and return to "normal" life soon, but that's not a scenario on which we're willing to make one-way bets right now. Prudent risk management is an important part of our responsibility, and we think markets may have gotten a little ahead of themselves at this point.

In seven months, there will be an election. We are a deeply divided nation. The present circumstances don't appear to be bringing us together, as many crises have in the past. Instead, they're deepening the rifts and entrenching obstinate attitudes. This does not portend a quick and easy solution to what is truly a national and even an international challenge. We must be prepared for a range of outcomes.

In the long run, we **will** overcome this disease. A vaccine will eventually be developed. Certain people will be shown to have a resistance to it. Others will recover from it and have some immunity as a result. Social restrictions will be relaxed, and groups of people will gradually return to some of the patterns and behaviors that defined us prior to this outbreak.

At that point, the economy will re-ignite. Companies will re-hire, re-tool and re-commit to long range plans. Pent-up demand will likely be unleashed in a very exciting way, and people will be determined to live boldly after having been cooped up and restricted for far too long. Nobody can know for sure when that will happen. However, if history is any guide, financial markets will have anticipated that re-ignition by six to eight months – and they will have shot powerfully upwards well in advance. True long-term investors want to be on board long before that – because nobody rings a bell.

For that reason, we will continue to maintain broad diversification among asset classes, including long-term ownership of great businesses. We also prescribe a stalwart attitude, resilience and a patient, disciplined perspective. Please call us if you would like to discuss your personal situation.

General Market Results

	1st Quarter	YTD	One Year	Three Year	Five Year	Ten Year
Barclays Agg Bond	3.15	3.15	8.93	4.82	3.36	3.88
S&P 500	-19.60	-19.60	-6.98	5.10	6.73	10.53
DJI	-22.73	-22.73	-13.38	4.42	6.86	10.00
S&P 400	-29.70	-29.70	-22.51	-4.09	0.56	7.88
Russell 2000	-30.61	-30.61	-23.99	-4.64	-0.25	6.90
NASDAQ	-13.95	-13.95	0.70	10.39	10.70	13.67
MSCI EAFE	-22.83	-22.83	-14.38	-1.82	-0.62	2.72
MSCI EM	-23.60	-23.60	-17.69	-1.62	-0.37	0.68

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