

CROWELL WEEDON ASSET MANAGEMENT
MONTECITO INVESTMENT PORTFOLIOS

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Dear Fellow Investors,

The first quarter of 2020 will be one for the ages. Shelter in place, self-quarantine, social distancing, and “out of an abundance of caution” will be engrained in all of our memories. The shock of empty grocery store shelves and inability to buy basic staples harken back to the Depression era and World Wars. Interest rates cut to 0%, a \$2 trillion government stimulus bill, and the fastest fall from new highs and into a bear market in history highlight the amount of uncertainty, fear, and panic engulfing the world. Although the near-term might appear bleak there are a few silver linings in these unprecedented times.

Everyone just received a major wake-up call and found out how woefully unprepared they are for a disaster. Most now realize the importance of having strategic reserves of basic healthcare supplies. There is no reason for the world to have a shortage of gloves, masks, and ventilators. Companies will have far more robust and fine-tuned contingency plans allowing for the smooth transition to work from home. The education system now realizes the need for remote and alternative teaching methods to keep pace with today’s rapidly advancing technologies. The mindset of “that’s the way we’ve always done things” isn’t going to always work in the future. In our opinion, we should all be more prepared, more flexible, and ready to adapt.

Recessions can be cleansing and improve the long-term health of financial markets. Although difficult to live through, resets like this are essential for the long-term health of financial markets and the economy. By the middle of this year we will have gone through the first bear market and recession in over a decade. This is important for a few reasons. Recessions serve as a great cleansing for the economy. Weak, inefficient, less productive ways of doing things are replaced by newer, better, faster solutions ensuring our economy continues to push forward with the best and brightest ideas. Further, investor mindsets can become complacent when times are good leading to overconfidence and an inefficient allocation of capital causing zombie like ideas to wander around for years with seemingly unlimited funding (WeWork as a great example).

Our “new normal” might eventually prove better for the environment, work/life balance, and overall happiness. We do believe change will come from this outbreak and not everything will go back to the way it was. Technology has clearly enabled a level of connectivity never before available in human history. Companies will examine if face-to-face practices are essential, possibly altering the demand for business travel forever. More employees working from home mean less daily commutes possibly impacting energy demand and improving overall air quality. With major outbreaks in densely populated urban areas we might see a continued exodus from the big cities as people tire of living on top of each other and instead prefer a more affordable, less stressful rural setting. Shelter in place has caused families to spend more time together enjoying movie nights, family dinners, and games. With health of

loved ones at the forefront of everyone's mind the perspective of what is truly important has also been reset.

It is important to keep perspective. While we certainly don't want to come off as taking COVID-19 lightly, we do hope the numerous other causes of death receive a sliver of the current 24/7 news coverage COVID-19 is garnering. The National Vital Statistics report from June 2019 showed all deaths and causes of death in the U.S. for 2017 and 2016. In the year 2017 the U.S. lost 2,813,503 lives with the top 10 causes being:

Cause	# of deaths	% of deaths
Heart Disease	647,457	23.0%
Cancer	599,108	21.3%
Accidents	169,936	6.0%
Chronic lower respiratory diseases	160,201	5.7%
Cerebrovascular diseases (Stroke)	146,383	5.2%
Alzheimer disease	121,404	4.3%
Diabetes	83,564	3.0%
Influenza and pneumonia	55,672	2.0%
Nephritis, nephrotic syndrome (Kidney disease)	50,633	1.8%
Suicide	47,173	1.7%

As of 3/31/2020 there were 3,173 deaths in the U.S .and 39,014 worldwide attributed to COVID-19.

Many of these deaths may still have occurred and been attributed to the causes listed above. Although sad to say, think of how many lives have been saved and tragedies prevented with far less vehicles on the road during this time of shelter in place. We're hopeful that the world and media recognize constant attention given to various topics does impact behavior. There are other causes of death such as heart disease, accidents, influenza, and suicide that could see numerous lives saved if healthy lifestyle choices, mental health awareness, or safe driving practices had consistent coverage. If we're truly about saving lives it would be nice to see influence used to promote solutions and not just fear.

We are aware that the current environment looks scary but panic and fear will not help your financial plans. While we never know when an exact bottom will occur in stock prices we do know that markets generally look forward and normally turn up before the news turns positive. Those investors that panic and sell their investments while waiting for more clarity will miss out on some of the biggest recovery gains to be had. Recall, at the March 23rd lows of 2,191 on the S&P 500 we were just 41% above where the S&P 500 peaked in March of 2000! Given, the March 2000 highs were a truly euphoric valuation peak, but that still equates to a horrendously low 20-year compound annual growth rate of 1.74%. At a certain point these market drops are like going back in time and eventually become severely disconnected from reality. Reality is our economy has grown dramatically over the past 20 years with GDP growing from \$10.3 trillion in 2000 to \$21.4 trillion in 2020. In the year 2000 iPhones didn't exist, apps weren't a thing, people still talked on land lines, Netflix only delivered DVDs by mail, talk of the

cloud was handled by meteorologists, electric vehicles were golf carts, and a small up-start named Amazon just opened their marketplace to 3rd party merchants.

There has never been a time in U.S. history where our markets went down and stayed down. They eventually pushed forward making new all-time highs 100% of the time. Keep in mind this track record was achieved in spite of other terrifying events such as the rise of Hitler and devastation of World War II, the assassination of JFK, the horrendous terrorist attacks on 9/11, and even other viral pandemics. In spite of the current outbreak fears, our conviction remains as strong as ever that we remain in the early stages of a long-term secular bull market that will see exceptional returns through the end of this decade. Because of this we feel it is an excellent time to take stock of your long-term goals and objectives and update your financial plan. We're confident patience and maintaining control of emotion will once again be rewarded. The world has advanced significantly and will continue to do so.

As always, we welcome your feedback and would love to talk about these and other topics that may be important to you. We thank you for your continued confidence and the opportunity to manage your investments. We take very seriously our responsibility. ***Montecito Investment Portfolio's Mission: To provide diversified, disciplined long term investment solutions, service and guidance to help our clients achieve, and maintain, their "Financial Independence".***

Sincerely,

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Sources:

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<https://google.com/covid19-map/>

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