RAYMOND JAMES

Hello Folks,

As we continue the journey of Covid-19, I thought I would share some insight and other commentary with you. I couldn't keep this one as short as I would like, so please take the 10 minutes (we all know you have the time now!) to sit down and read this. I do enjoy your feedback also, so keep your comments and questions coming.

First, from personal experiences this past week I feel we are very near to a bottom. I have had a handful of conversations eerily similar to the 2009 market bottom that only happen once people capitulate and believe this one is different and the world is coming to financial ruin and it's, "Every man for himself!".

As previously stated, many times I truly respect Jeff Saut and his team and will be quoting them a few times here today. This from his note this morning:

"Bear market? Well, by conventional measurements (a 20% decline) that is a correct statement. We, however, do not believe the equity markets have tipped over into a bear market. For the record, the average bear market decline since 1929 has been 33.5% with the worse being 1929's 86.2% debacle. The average duration has been 1.3 years. We have been in this business for 49 years and looking at markets for 56 years with our father. We have never seen a decline like this. The decline has now lasted for more than 25 sessions, which is the typical duration in the 17 – 25 session declines seen in such downside skeins. As often stated, some declines have lasted 27 – 30 sessions, but it is rare to see one go for more that 30 sessions. The longest one chronicled in our notes of 56 years is 41 sessions. As we have been telling investors/portfolio managers, "I have never seen a decline like this, and it is unanalyzable because CV-19 is unanalyzable! So where is the bottom?
Well, we have repeatedly said we think the S&P 500 (SPX/2304.92) will likely bottom between 2346 and the 2000 level. Of course, that is provided we are not into a 1987 like stock market crash. So far, this decline has been pretty orderly, which is not typical of a crash. Dear reader, panic declines are NOT sustainable!

Bill Miller goes on to state:

I think as time goes on, unless the news on the pandemic side gets radically worse — I mean radically worse than expectations not just worse because we know it's going to do that — I would expect that the fear would attenuate," Miller added. "Just keeping that level of emotion and fear up requires a constant dose of new and really bad news." Miller, who beat the market for 15 straight years while working at Legg Mason, came back with a bang in 2019, riding the stock market's relentless rally to record highs.
Miller's firm posted a return of 119.5% last year net of fees, he told investors in a Jan. 15 letter. Those

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gains more than made up for the firm's 33.8% loss in 2018.
The question now becomes, "Are we near a bottom?" Well, because the coronavirus is unanalyzable the best we can do is attempt to make an educated guess. We have maintained that the S&P 500 should bottom out somewhere between 2000 and 2346. Obviously, Friday's fall took out the December 2018 low of 2346.56 making the next target the low of May 2015 at 2134. That would represent a 38.2% (Fibonacci ratio) pullback of the rally from the 2008 – 2009 lows. Moreover, most of our "finger to wallet" indicators registered extremely oversold readings last week and things like the MACD indicator are screaming "buy." The anecdotal evidence is also there. Throughout my career it has been said when you get a picture, a chart, and a headline on the front page of a news paper about the decline, the decline is almost over. That happened last week. We are also getting emails like – This sucks; Jeff, make it stop; I am going to sell everything; and the list goes on – and these are the kind of emails we get close to a bottom. And then many financial advisors are telling us how bad things are as business has dried up. Again, these are the type of things you hear/see near a bottom."

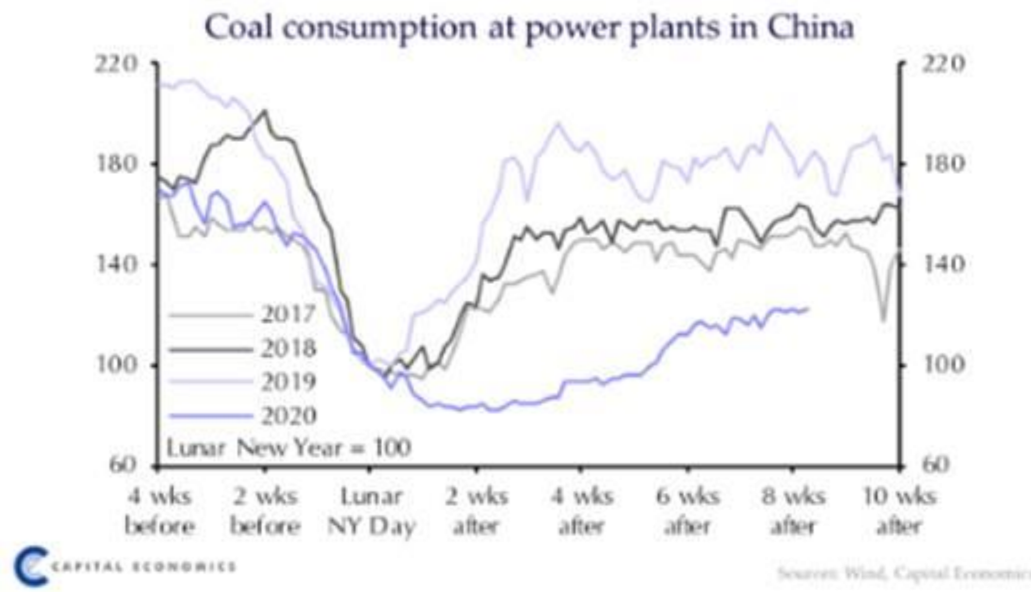
This also from Bill Miller, *"There have been four great buying opportunities in my adult lifetime. The first was in 1973 and '74, the second was in 1982, the third was in 1987 and the fourth was in 2008 and 2009. And this is the fifth one."*

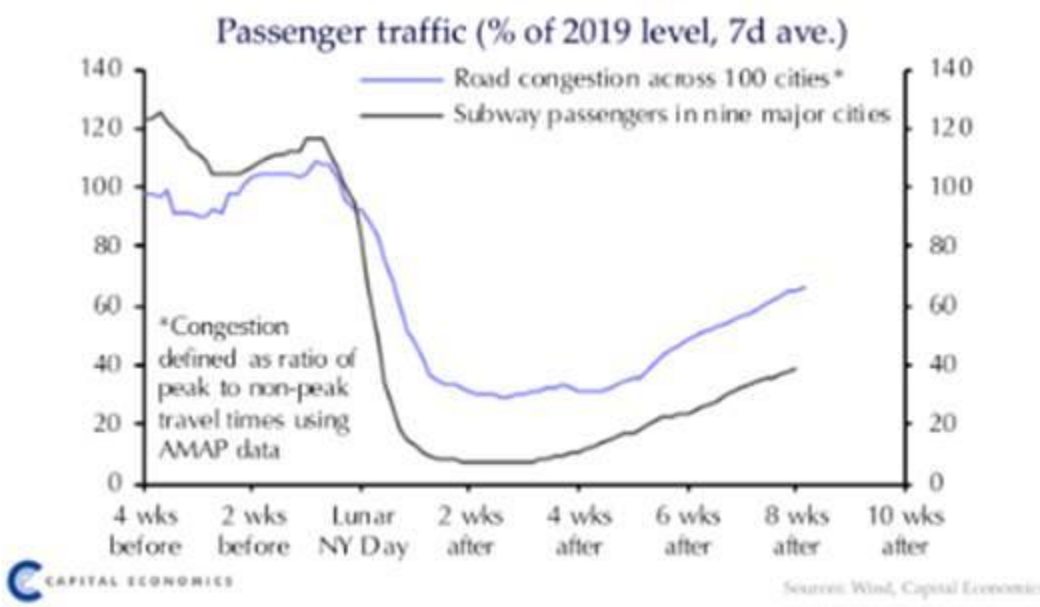
...And last from Peter Lynch, *"Corrections and bear markets don't last forever. Everything goes in cycles. And given the economy will be in expansion 75% – 80% of your working life, by extension we will be in a bull market the same amount of time. So, we all better have at least some equity exposure while we are alive. Clients looking to ditch all equity exposure run a greater risk of doing more harm to their nest eggs than good. Far more money has been lost preparing for corrections than has been lost in corrections themselves."*

As I stated in my last email, I believed market volatility was here to stay until investors are satisfied with an economic package to alleviate the pain for so many people and businesses that will suffer drastically through this.

As stated by our own Jason Castelli today, "*You know you're living in unprecedented times when you wake up and feel relief that futures are only down 3%. Futures markets were limit down after the nearly US$2.0 trillion stimulus bill failed to get the necessary votes to clear a procedural hurdle in the Senate on Sunday. Democrats are holding up the bill on concern about the lack of transparency in how a US$500 billion loan program would be disbursed. They're also looking for more money to help state and local governments and hospitals. Recall the financial crisis US$700bln TARP had the same problem making its way through Congress creating significant volatility on the Monday after the bill failed to pass on the weekend. Futures are now pointing to a higher open, as the Fed announced it would pursue an unprecedented open-ended QE. Fed head Neel Kashkari's 60 Minutes interview last night must have inspired the rest of the Fed; one key comment related to printing money; "There's no end to our ability to do that." He later added: "We're far from out of ammunition...your ATM is safe; your banks are safe. There's an infinite amount of cash at the Federal Reserve."*

I have also stated that China is ahead of us by about 1.5 to 2 months. Also from Jason this morning here are some interesting charts showing China coming back online:





And more from Saut today:

Lowry's concludes:

In summary, the intense, panic selling during the current market decline has sent the major price indexes *close to historically depressed levels. However, the forces of supply and demand remain the most important measures in separating short-term market lows from the final bottom in this decline. This final bottom is likely to be marked not only by a surge in both short and intermediate-term measures of Demand but also by a significant expansion in market breadth thereby initiating a major rally that carries the market to new all-time highs*.

We agree, and our "internal energy" model is telegraphing a burst of more positive energy beginning this week and extending into mid-May, and potentially mid-June. One simple indicator to watch is the new highs/new lows numbers. If the New Lows number shrinks, it would be a sign that a bottom is forming. Yet, that is not happening this morning with the Dow futures down ~500-points at 5:55 a.m. Yet, we are seeing positive divergences among various indicators. As the SentimenTrader notes:

Friday's session was one of the most unusual in . . . well, ever. On a day the S&P 500 lost more than 4%, there were the fewest declining issues in 60 years. Even within the S&P itself, we've never seen this few declining stocks on such a bad day.

From our friends at BCA research today:

In times of severe stress, the market tendency to overreact at the individual-stock level radiates out to the entire market. As the buzzards circle, and the margin calls arrive, investors scramble to sell stocks that have managed to dodge the brunt of the decline, and therefore bring something closer to their perceived fair value than the stocks that have already been savaged. In Dennis Gartman's memorable phrasing, "when the cops raid the house of ill repute, they take away the good girls and the piano player, too." The indiscriminate selling that draws better stocks into the vortex creates opportunities, and it seems to us that there must be many sound issues that are being tarred with the same brush as companies in the travel, hospitality, restaurant and brick-and-mortar retail industries, and the oil producers who are caught in the Russia-Saudi Arabia crossfire.

And:

About 25 years ago, we read the *Market Wizards* profiles of elite traders before interviewing for trading positions with broker-dealers. We distilled them into seven characteristics of successful traders that were at the heart of our pitch: competitiveness, humility, ability to psychologically handle losses, patience, discipline, emotional detachment and willingness to be a contrarian. We haven't worked on a trading desk in a while, but those qualities would suit all investors, and we think they're especially *apropos* at times of peak emotion.

To those points, in office, I have been strategically moving assets in my discretionary models from fixed income holding MUB to PPL and JPM in USD to CPX in CDN $ in the past week or so. The opportunities they have presented are extremely attractive and should help pull us out of this with higher yields and hopefully a stronger bounce back in the coming months (see contrarian above).

For those of you investing weekly/monthly. Stay on course. You're getting assets at a huge discount compared to only a month ago! It's a huge opportunity for long-term investors to buy (see patience above).

For those of you invested. Stay the course- fear is an emotion, not a tool one should use to make investment decisions (see emotional detachment above).

Last, I am here to discuss anything (less maybe how to get your husband to finish his project, Chrissy😊). Presently, I am often here through the weekend also so call anytime and I will try to respond as quickly as I can (see humility and discipline above).

Cheers,
Steve

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