POLARIS WEALTH ADVISORY GROUP

The Polaris Perspective

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Trump Signs $2 Trillion Stimulus Bill

(what does it mean and what's next for the markets)

The U.S. Government signed the largest stimulus package ever on Friday – a $2 trillion relief package to help citizens and companies through the COVID-19 pandemic.

Here is a Brief Description of the Package and How it Might Impact You:

- **Direct stimulus payments**
  - $1,200 for single American making under $75,000
    - Phased out payments for Americans making less than $99,000 but more than $75,000
  - Married couples would receive $2,400, thresholds above are double.
  - plus $500 for every child under 17, for those who qualify.
- **$500 billion in lending for struggling industries like airlines, cities, and states.**
  - Airlines get $29 billion in grants, and $29 billion in loans and guarantees
  - $350 billion is set aside for SBA loans for small business.
- **Unemployment will last longer, with eligibility lasting 39 weeks, as opposed to normal unemployment which covers 26 weeks.**
  - The unemployed will get an extra $600 per week for four months, on top of state unemployment benefits in an attempt to bridge 100% of lost wages.
- **Paid Family Leave – businesses with fewer than 500 employees are required to provide up to 12 weeks of family leave (with the first two weeks unpaid) to any employee who must stay home with children whose schools have closed due to the pandemic.**
- **RMD is waved for 2020.**
- **Student loan payments have been suspended until September 30th**
- **Up to $100,000 hardship withdrawals are allowed from retirement plans (not to exceed 50% of the value of the account) without early withdrawal penalty for those under 59 ½ years of age. The amount withdrawn must be repaid within three years. If not repaid, the withdrawal will be taxed at ordinary income tax rates and can be paid over a three-year period.**
- **Borrowers with federally backed mortgage loans may request up to six months of deferred payments after proving COVID-19 financial hardship.**
- **The hospital industry is getting $100 billion.**
- **The oil industry is getting nothing.**
- **Neither is the cruise line industry.**

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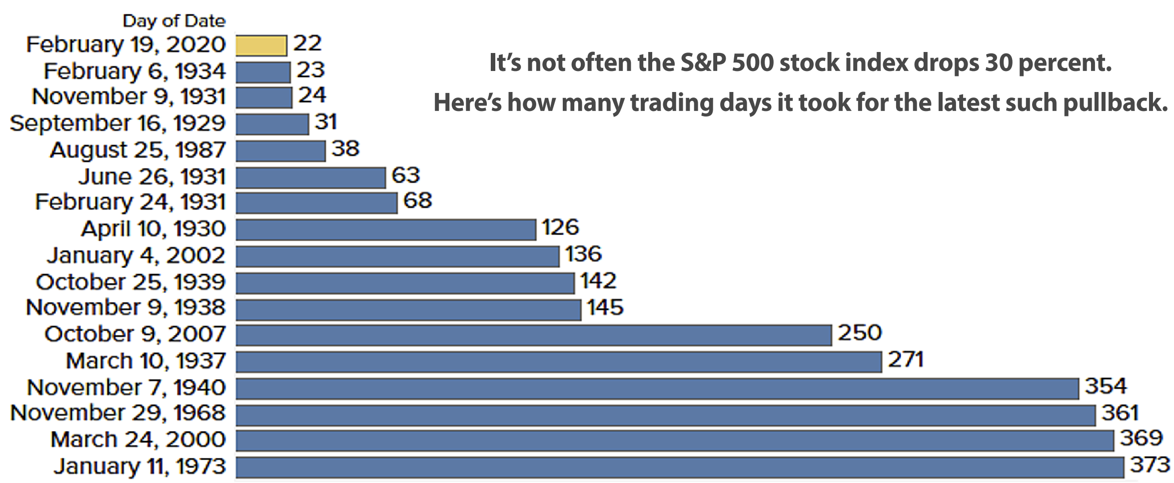
Markets React

Monday, March 23rd capped off the fastest 30% decline in the S&P 500's history. It took the index only 22 trading days to drop from its highs on February 19th of 3,388.8 to 2,223, a 34.4% decline.

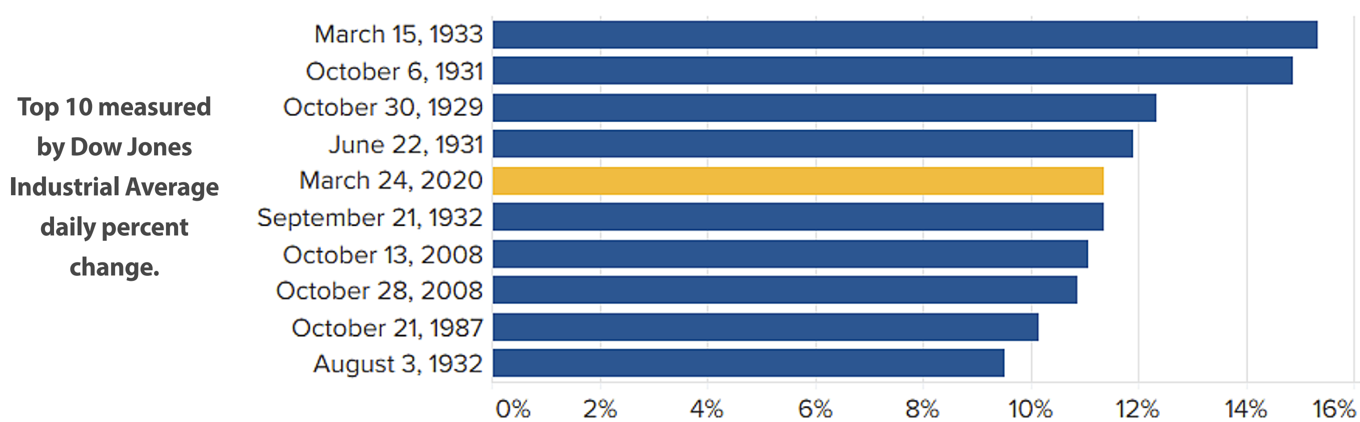
Stocks Post Fastest 30 Percent Drop Ever



Source: BofA Global Research

Monday's low was followed by the fifth largest gain in the Dow Jones Industrial Average history, the best day since 1933.

The Dow's Best Day Since 1933



Source: FactSet

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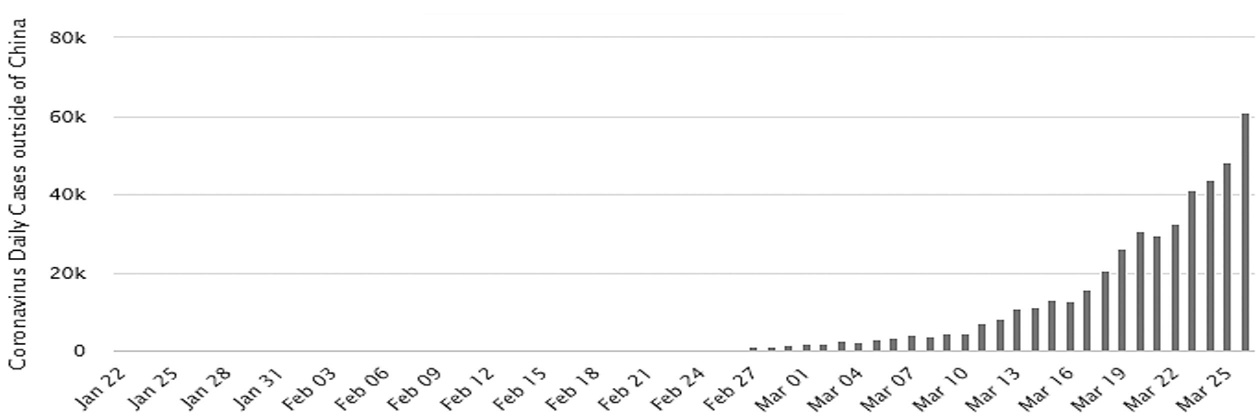
Tuesday's huge bounce was followed by two more positive days in the market. This big three-day bounce was chalked up to deeply oversold conditions, the promise of unlimited Quantitative Easing by the Fed, and the hope of the biggest fiscal stimulus package on record. Some pundits hailed that the market had found its bottom after the 18% gain in three days, even though the markets were still down more than 22% from their highs. Our three-day rally was followed by profit taking on Friday, erasing one-third of this historical gain.

S&P 500 – Rolling 12-Months

Source: Standard & Poor's, Polaris Greystone Financial Group

There is a lot of skepticism about whether the market has bottomed. We have not seen a peak in coronavirus infections or the stress it is putting on our healthcare system. As of March 27th, worldwide cases continue to rise. The United States has topped Italy and China with the greatest number of COVID-19 cases, surpassing 100,000 total cases.

Daily New Cases Outside of China



Source: CDC, Johns Hopkins, Worldometers

Until the COVID-19 coronavirus has peaked and is showing signs of dissipating, hope for economic stability and market recovery are limited.

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What Does History Say?

Two of the dates mentioned in the top performing market days were in 2008. We all know that 2008 didn't end well for investors, but let's examine the two dates mentioned in the previous chart.

October 13th - This one-day rally ended at 1,003.35. It then dropped for the next two weeks to 848.92, a 15% decline immediately after its short-term rally (light blue arrow).

October 28th – Again, an amazing day in the market. It ended the drop following the October 13th rally. The markets proceeded up another 6% during the subsequent week, peaking at 1,005.75 on November 4th. This run gave false hope to investors. The markets meandered down until finding their lows on March 9, 2009 at 676.53, a 32% drop from the November 4th short-term high (dark blue arrow).

S&P 500 – July 2007 through May 2009

Source: Standard & Poor's, Polaris Greystone Financial Group

This kind of move after a "waterfall" drop in the S&P 500 is not unusual, in fact it's farely common. According to Ned Davis Research, about 70% of the time markets retest their previous lows after a "waterfall" drop. Previously, it has taken the market a little under two months to retest its previous lows and it drops, on average, 7% below the prior lows.

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What's Our Strategy from Here?

Tactical investing is very challenging. Selling to avoid losses is only half of the equation. Polaris Greystone has done a great job protecting our clients from the full downturn of the stock market. Buying back in is the second part of the equation. Last week, we saw the markets rally. The toughest question is, "Is this a 'head fake' or are the markets really beginning a sustainable rally?" If you play the odds, this is a head fake. If these markets follow the historical odds, we will retest our lows on March 23rd in the next two months, and perhaps drop 5 – 10% below those lows before finding its absolute low.

There is a 30% chance that the markets rally and never return to the lows experienced on March 23rd. This is what happened at the end of 2018 / early 2019. Had you been significantly in cash, you would have missed the rally.

We have decided to take a moderate approach to our portfolio management. We are adding equity exposure to our portfolio strategies, but in 5 -15% increments. As you have probably already seen in your portfolio, we started buying a few stocks in our strategies last week. We are sticking with our general theme of investing. "What stocks will do well with everyone working from home? What stocks will hold up regardless of the spread of the COVID-19 coronavirus?" and lastly, "What are some great companies that we'd want in our portfolio anyway, if we were to look out six months to a year from now?"

Eventually we will want to add names that have been really beaten up due to our "shelter-in-place" / "social distancing", including restaurant companies, airlines, entertainment companies, and hotels, to name a few.

We are still very confident that once COVID-19 slows its spread, our country and our economy can quickly heal. As a portfolio manager, I see great opportunity for us in the coming months and I am confident that we will come out the other side in great shape.

As always, I welcome your questions and comments.

Sincerely,

Jeffrey J. Powell
Managing Partner & Chief Investment Officer