POLARIS
WEALTH ADVISORY GROUP

The Polaris Perspective

For more information or to schedule an introductory consultation contact us at: info@polariswealth.com I (800) 268-9046 I www.polariswealth.com

Uncharted Waters

Today the stock market opened down 5% and quickly triggered a level one "circuit breaker" at 7%, causing a halt of trading for 15 minutes for the first time in a decade. This precipitous drop was caused by continued worries about the spread of COVID-19 and an oil price war between the Saudis and Russia.

A trading curb, also known as a "circuit breaker", was put into place after the 1987 stock market crash to curb panic selling into negative markets. They are currently set at 7%, 13%, and 20% (based upon the S&P 500's previous day closing price). Circuit breakers have only been tripped a handful of times since their creation.

The Price Action of the S&P 500 from Friday's Close through Monday's Close

The chart above (and enlargement to the left) shows the price action of the S&P 500.

The blue arrow in the chart shows the "gap down" from Friday's market close to Monday's open.

The gold arrow indicates the 15-minutes shut down of all trading when the circuit breaker was triggered a few minutes into the trading day.

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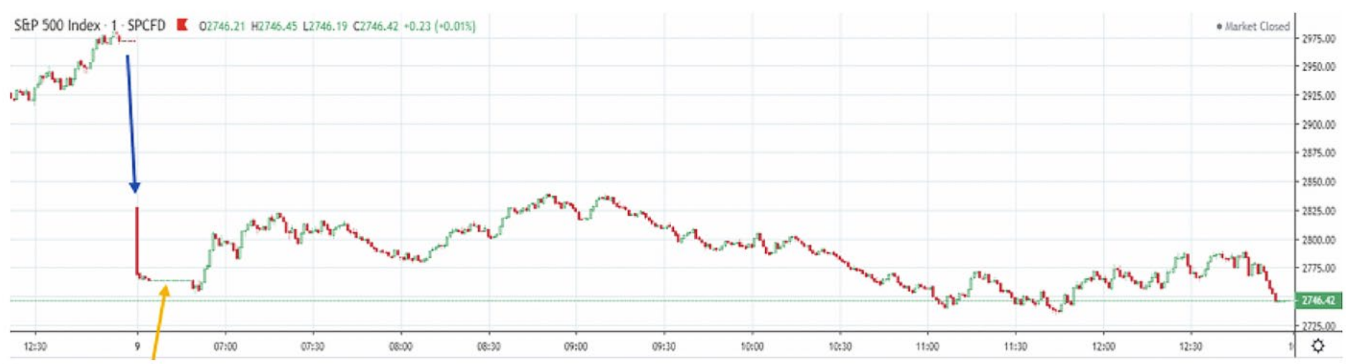

While the circuit breakers helped stop the free fall in the first few minutes of the trading day, it couldn't stop the markets from having their worst day since 2008. All 30 stocks in the Dow Jones Industrial Average dropped, causing the DJIA to fall 2,013 points, or 7.79%. The S&P 500 was down 7.60%, with only 9 companies showing positive performance on the day. Today's losses put the DJIA down 19.29% and the S&P 500 down 18.89% from their respective highs. This is not quite Bear Market territory, but it is very close.

The energy sector was the worst performing sector today (down 18.74% just today), as the Saudis started an all-out oil price war with Russia. West Texas Intermediate (WTI) oil prices dropped by $10.30 per barrel, down 24.95% to $30.98. Financials were down 9.93% as the big banks dropped due to the flattening yield curve and their lending exposure to oil companies. J.P. Morgan, Bank of America, Wells Fargo Bank, Goldman Sachs, and Morgan Stanley were all down double digits. Industrials continued to come under pressure, losing 8.30% of their value today.

The worst hit area of the market during the COVID-19 outbreak has been the travel and leisure industry. The cruise liners have been crushed, with Carnival Cruise Line down 58% from its highs, Royal Caribbean down 64%, and Norwegian Cruise Line down 66%. The airline industry has followed suit, dropping dramatically from their recent highs as people become afraid of flying for fear of catching COVID-19. United Airlines is down 50%, American Airlines is down 51%, Delta is down 29%, and Southwest Airlines is down 25%. The hotel industry isn't faring any better, with Marriott and Hilton down 32% and 24% respectively.

What Is Polaris Wealth Doing to Protect Me?

As we've always discussed, Polaris Wealth is a tactical portfolio management firm. In our legacy strategies, we increase your exposure to the markets when risk is low, we lower your exposure to the equity markets when risk increases. We also position you in different sectors of the market, depending on risk. We were proactive going into this crisis and continue to monitor ways that we can position our portfolios to best navigate the current market environment.

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Stock Strategies

We have lowered our exposure to the stock market across every stock strategy. For example, we have taken a very defensive stance in our flagship strategy, the Polaris Wealth Rising Dividend Growth and Income strategy. It can have as high as 80% exposure to the stock market when risk is low, a 60% exposure when risk picks up, and we go below the 60% exposure when risk is high. Right now, we have a 45% exposure to the stock market, with 34% in bonds and 21% in cash. 25% of our equity exposure is in consumer staples stocks. Consumer staples companies are those that you need to buy from, regardless of what's going on in the world. They are companies that sell food or other basic needs like shampoo or deodorant. They are considered to be defensive stocks. We hold names like Clorox, Walmart, and Hormel Foods. The rest of the portfolio is positioned in stocks that we feel should fare well, even if the stock market continues to drop. Our stock portfolio has a 0.28 beta, which means the portfolio should only go down about 1/3 of what the stock market declines. This was the case today. The Rising Dividend Growth and Income strategy was down approximately 2.25% today, with the S&P 500 down 7.6%.

Our other legacy stock strategies, the Rising Dividend Growth, Global Growth, and Socially Responsible Investments strategies are 100% stock strategies with no bonds. If we see risk in the market, we can raise cash. We are currently sitting on between 31% and 34% cash, depending on the strategy. We are positioned very similarly to the Rising Dividend Growth and Income strategy (minus the bonds), with consumer staples stocks and other defensive names. Our betas range between 0.47 and 0.58, which means that we should experience far less downside in these strategies when the markets drop. Our Rising Dividend Growth strategy, for example, was down approximately 3.2% today. Normally I wouldn't brag about being down 3.2%, but the S&P 500 was down 7.6%, and the Russell 1000 Value (our correct benchmark) was down 8.89% today.

ETF Strategies

We run two types of ETF strategies. One is tactical, the other is a beta rotation strategy. The tactical ETF strategies have a baseline of stock to bond to cash ratios, which are shifted depending on how much risk our research indicates is in the markets. The Beta Rotation strategy keeps a fixed stock to bond to cash ratio, but switches from high risk to neutral to low risk ETFs, depending on our research.

Our Global Equity ETF strategy has a base of 100% stock, with no bonds, and a residual of cash. We run a growth strategy (70% stock, 30% bonds), a moderate strategy (50% stock, 50% bonds), and a conservative strategy (30% stock, 70% bonds). In all cases, we have lowered our exposure to the stock market. For example, the Global Equity ETF strategy is down to 64% equity exposure, from 100%, with 36% cash. Our Growth ETF strategy is down to 51% equity exposure, from 70%, with 20% bonds and 29% cash. We lower our exposure to extreme days like today by limiting our exposure to the markets altogether.

The Beta Rotation strategies keep a constant asset allocation (our stock to bond to cash), however the risk levels of the underlying investments change over time (from aggressive to defensive). Our Beta Rotation strategies moved from high beta (high risk), in the beginning of the year, into a neutral stance in February and March. This has protected these portfolios from the full downside of the market.

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Polaris Wealth Preparedness

In just the past few weeks, life has already changed here in the United States. As of Monday evening, at least 666 people in 36 states have tested positive for the coronavirus. This number will certainly go up as testing becomes more available and widespread. Elementary schools and high schools are being shut down in areas that have been affected by someone testing positive in their community. Major universities like Stanford, University of Washington, Princeton, and Columbia are all cancelling or suspending "in-person" classes. Many companies have cancelled conferences, restricted travel, and some companies (Facebook, Twitter, Microsoft, Google, and Apple to name a few) are asking employees to work from home. There is talk of cancelling major sporting events, including the upcoming Olympics in Japan. This might have you wondering, "What is Polaris Wealth doing to make sure they are operational?"

One luxury of working with a San Francisco Bay Area based firm is we are used to disasters and disaster preparedness. Last year we had to contend with PG&E shutting off power to millions of people in Northern California in an effort to limit downed power lines causing deadly wildfires. Polaris Wealth was able to continue our everyday work without missing a beat.

Our management team met two weeks ago to reevaluate our disaster preparedness plan, given the complexity and potential impact that COVID-19 might have on our employees and firm. Thankfully, almost all of the work that we do can be done virtually. Our major obstacles are receiving mail and basic business operations that require someone to physically be at our office. We have implemented the following:

- All public spaces will be sanitized before any meeting, using an anti-viral spray or wipe to ensure common spaces are disinfected.
- We are encouraging all client meetings to be held over the phone or via WebEx until the coronavirus has subsided.
- We have suspended all travel.
- All employees must take their laptop home with them every night. This ensures that they will be able to work from home, should the need arise (e.g. – their child's school closes for two weeks due to someone at the school being exposed to the coronavirus).
- Anyone showing any sign of illness will stay home from work.
- If an employee has been exposed or thinks they have been exposed to someone with the coronavirus, they will work from home a for minimum of two weeks.
- If an employee has been exposed to COVID-19, we will shut down that office and all employees from that location will work remotely until the office in question has been decontaminated.
- We have pre-established phone trees to communicate all status changes to all of our employees in real time.

We have taken painstaking measures to ensure that Polaris Wealth is fully operational while ensuring the safety of clients and all employees.

As always, I welcome your questions and comments.

Sincerely,

Jeffrey J. Powell
Managing Partner & Chief Investment Officer