

Dividend Assets Capital

DIVIDEND ASSETS CAPITAL - INVESTMENT STRATEGIES FOR RISING INCOME & GROWTH

Quarterly Commentary
March 31, 2020

May You Live in Interesting Times

Investors enjoyed a wonderful 2019 with equity prices appreciating in the neighborhood of 30% while bonds rewarded investors with close to a 10% return. We started 2020 with a strong economy, healthy corporate earnings and further new highs into February of this year with the S&P 500 reaching an all-time high of 3,386.15 on February 19th. One month later, the S&P 500 hit 2,191.86 on March 23rd.

What started as news reports about another virus in China has turned into an unprecedented shuttering of the global economy. Those of us in the investment world use more statistics than baseball (remember baseball?). Here are some interesting stats from March:

- U.S. stock markets experienced the quickest decline into bear market territory (-20%) in history, dropping 30% in nineteen days, which historically took an average of 12-18 months;
- Short-term expectations of market volatility, as measured by the “fear Index,” closed at an all-time high on March 16th which is an actual realized volatility only being eclipsed in October 1987 (Black Monday) and the late 1920’s;
- The FED aggressively slashed rates on March 3rd and then again by a full percent on March 15th;
- This FED action pushed 10-year Treasury rates to .31% and 30-year Treasury Rates fell to .702%, and very short-term Treasury bills went negative yield briefly on March 24th;
- Oil prices had their biggest one-day drop since 1991 Gulf War, plunging 24% on March 18th caused in large part by a price war between Saudi Arabia and Russia. The commodity dropped below \$20/barrel on March 30th, an 18-year low.
- We had one of the biggest up days in history on March 24th with the S&P 500 racing up 11%;
- How about the U.S government’s signing the largest relief/stimulus package totaling over \$2 trillion?

So, what happens now? As we learn new terms such as social distancing, community spread, quarantining and living the introvert’s dream, we now appreciate our freedom even more. As a nation, it is truly inspirational to see how we can come together when the chips are down. At DAC, we have an enormous respect for the resiliency of our financial markets and the amazing companies we invest in. We believe that the 2020 Coronavirus decline is NOT the 2008 financial crisis. In 2008, there were deeply rooted weak spots in the economy coming to a violent head with financial debt, housing bubbles and extremely leveraged Wall Street firms like Bear Stearns and Lehman Brothers. This current market route resembles perhaps more of a natural disaster with our economy coming off a strong, healthy base.

We will most likely be in a recession, as measured by the National Bureau of Economic Research, which states a recession is a “significant decline in economic activity spread across the economy, lasting more than a few months using GDP, real income, unemployment, industrial production and wholesale-retail sales.” Yes, that sounds like today, however, DAC believes the recession will be short-lived with the economy rebounding aggressively when the country gets back to work. The downside to that belief will be realized if we stay at home beyond April/May. The duration of the economic shut down and how much the Coronavirus spreads throughout our society will determine our financial destiny in the short run. As a veteran of over 30 years in this business, I have experienced three serious declines, thus I have seen this type of movie before. This will all pass as the others did and we will be stronger for it.

We wish all of you a safe stay at home. Enjoy your family, read a book, do a puzzle, support your local restaurants with take out, get physically and spiritually fit, help a neighbor, do a home improvement project. Most importantly, give much respect to those who are fighting the good fight for us every day at hospitals, fire and police stations, gas stations, pharmacies, restaurants and grocery stores, delivery workers, warehouse workers, our military and postal workers.

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S&P 500 refers to the Standard and Poor's 500 Index which is a capitalization weighted index of 500 stocks. Individuals cannot invest directly in the S&P 500 Index.

NASDAQ refers to the Nasdaq Composite Index which is the market capitalization-weighted index of over 3,300 common equities listed on the Nasdaq stock exchange. Individuals cannot invest directly in the Nasdaq Composite Index.

Dow Jones refers to the Dow Jones Industrial Average Index (DIJA) which consists of 30 U.S. blue-chip stocks from all of the major sectors except utilities and transportation. Individuals cannot invest directly in the Dow Jones Industrial Average Index.

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DIVIDEND ASSETS CAPITAL, LLC is a privately held registered investment advisor located in the Low Country of coastal South Carolina. We were founded in 2003 by several investment professionals each sharing the desire to provide clients with a sound investment philosophy using energy related Master Limited Partnerships (MLPs) and dividend growth equities. From its humble beginnings of five employees, the firm now includes a staff of fourteen. DAC-20-36



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