TJIM QUARTERLY INSIGHT

First Quarter 2020

Tom Johnson Investment Management, LLC

In our over 37 years in the business we have witnessed multiple downturns, and each is unique. The current iteration is certainly no exception, in fact, if stock market declines were tiger trainers, this one would be Joe Exotic.

The S&P 500 index peaked at 3,386 on February 19th, and by March 23rd the S&P had fallen to 2,237, that's good for a 33.9% drop. The standard definition of a bear market is a 20% drop in the index. The declines we experienced in the first quarter significantly exceeded the declines of a standard bear market. Not only was the magnitude of losses significant, but the velocity of the decline was the fastest in history. Let that sink in. There has never been a faster decline from peak to bear market in history. Is there a Joe Exotic for bears?

Unfortunately, the cause of this market decline is no laughing matter. This downturn was not caused by the normal culprits, financial excesses and geopolitics; this downturn was caused by a virus. This virus is novel and thus the population has no immunity, a situation that promises to place immense strain on the health care system as well as take a daunting toll on human life around the world.

In order to slow the spread of this virus, or flatten the curve, governments around the world have taken substantive intervening steps, including limiting the movements of individuals. These steps are important to avert disaster, but they are not without costs to society. The virtual quarantining of our society, and the subsequent impact on business, have led to approximately 6.6 million reported job losses, and counting. Closure of schools and businesses have displaced many of the most vulnerable members of our society. Finally, these measures have created extreme volatility in the markets in which we participate.

We have seen multiple dislocations across markets. Bid ask spreads, the difference between what you can buy and sell an asset, had gotten wide enough to drive a truck through in many markets – especially bonds – even the most liquid treasuries traded with considerably wider spreads than normal. ETFs (Exchange Traded Funds) which are supposed to trade at NAV (Net Asset Value), traded at significant discounts, and continue to stray further from NAV than they should currently with both premiums and discounts.

As previously mentioned, this downturn is not a product of the usual suspects – A near total shutdown of economies across the globe is unprecedented. Therefore, we don't feel as though we can approach this current environment in the same manner as past bear markets. We live in the question; is this the market that fell 33.9% in 5 weeks, or is it the market that gained 17% in the subsequent week? How long will the shutdown last? How soon will things return to "normal"? Is it seasonal? Will there be a second or a third wave of infections? All of these questions could result in further or prolonged limitations on the movements of humans.

At current, we still don't know how this story will end. We don't feel as though we have enough data to see through the exhaustive list of potential positive and negative outcomes. We have in our opinion sufficient dry powder (cash directly or maturing treasuries) to put back into this market and we will do so in prudent steps as our attitude improves both about the virus, and the contagion impact and our opinion about the unique return to both valuation and consumption. Perhaps hearing our efforts and strategies might provide a degree of comfort.

On the equity side, we are focusing on - liquidity (prior and current higher cash levels ~ might change w/ opportunity), diversification, stocks of economic necessity (there are nearly 8 billion people that still need products of necessity), credit analysis (cash on hand, debt structure, debt relative to cash flow, lines of credit), legislative and fed stimulus benefit analysis, raw materials costs and customer demand.

On the fixed income side, we are focusing on - liquidity, structure of maturities, aggregate duration, quality, investment grade credit exposure, credit analysis.

We would like clients and consultants to look at their aggregate picture and ask if there is sufficient liquidity (i.e. cash and equivalents) to address any near-term needs. And ask themselves if they are generating appropriate income to address intermediate term expenses: and appropriate allocation to address the long term demands of growth, income, and capital preservation to enhance purchasing clout over such a time frame. The remaining issue is risk tolerance and that assessment particularly might change given the unique global circumstances. We recognize it might be hard to stay the course.

We do believe during this recession and recovery process whether it's a v, u, l or w shape; that things will be quite different on the other side. Our government (and most governments around the world) will have a much higher debt to GDP level, taxes will change, and consumption patterns will materially change. The analysis is ongoing and we will make decisions on your behalf that we believe are the most prudent for preserving capital on the downside, generating income in the near term, and growing capital for the long term.

Sincerely
TJIM Investment Team

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