

PERFORMANCE

	FMR Performance		Russell 1000	Dow Jones	S&P 500
	Taxable	Retirement	Value	Industrial	Dividends
2020 Q1	-23.20%	-19.10%	-20.61%	-23.20%	-19.60%

The Q1 performance data capture the worst of the market decline. In a dramatic up turn, this shortened holiday week finished as the best performing week since 1974! These first two weeks of April have witnessed a rebound of 8.4% (S&P 500) from the March 31st data. And since March 23rd, probably the bottom of the market, the S&P 500 has increased 27.8%! The market rebound is a direct reaction to government programs and a lessening in the outbreak of Covid-19. Hopefully, the quarantining will start to end in April.

A “black swan” is defined as an unforeseen event typically with extreme consequences and is rarely supposed to happen. That two black swans happened to occur within 11 days of each other is not only unprecedented, but unthinkable. For the U.S., the first black swan event hit Seattle, WA on February 29, 2020, with the announcement of the first American death from the coronavirus. The second was Saudi Arabia announcing on March 11, 2020, that it would flood the oil market with 12.3 million barrels of oil a day in a price war with Russia. Why? Saudi did this because Russia would not go along with OPEC in agreeing to a moderate cut in production to maintain a minimum of \$50/barrel.

This second black swan caused the oil price to collapse to \$20/barrel, creating additional economic pain to every other oil producer in the world with higher production costs than Saudi Arabia. This action exacerbated the stock market decline and the economic shock already in place from the COVID-19 virus. An 11-year bull market was officially ended with the combination of these two exogenous events. The U.S. is now well into a bear market after a **31% S&P 500 correction from year end 2019 at 3230 to what appears to be a bottom on March 23, 2020 at 2237**. While these black swans virtually guarantee the beginning of a one to two quarter recession, the U.S. economy was the strongest in the world at the end of February and the U.S. has more than enough medical talent and financial strength to overcome both black swans. Covid-19 Tests are now a reality and new therapies and vaccines are already in randomized trials, and likely to be ready by late summer.

In an interview with Vanity Fair on Tuesday, March 31, 2020, Dr. Anthony Fauci, our country’s leading epidemiologist, said that while we are “obviously still right in the middle of a very serious situation. . . We have different levels of activity in different parts of the country. . . **We hope - we don’t know for sure - that we’re starting to see the leveling off of new admissions to hospitals. That’s the first sign that we may be making some headway with our mitigation strategies.**” He did add that “. . . multiple cities are at different timing of what their problem is.”

The data suggest that the early high infection areas, that is China, Italy, South Korea, and Washington State may be experiencing a slowing expansion of this virus. Even in New York, the epicenter of the virus, the number of

daily coronavirus hospitalizations have stabilized. Amid the continual difficult news surrounding this coronavirus pandemic, Dr. Fauci's statement from March 31st was the first glimmer of hope that this country is seeing a slight turn in hospital admissions of coronavirus patients. One can surmise that the encouragement from Dr. Fauci means he believes that mitigation is working. Having said that, there is still so much that we do not know about the taper and containment of the coronavirus. One thing we do know is that the economic landscape will be slow to recover as people will continue both quarantining (now 80% of the U.S.), and social distancing. The economic recovery will be spotty. There are so many obvious questions about the economy that depend on any number of recovery issues. Questions such as: will the consumer be fearful to spend; will the virus affect people's willingness to travel; will there be a hesitation to attend large gatherings for entertainment/sports/business; will people be able to go back to work with a possible continuation of social distancing, among other questions?

Unprecedented is the only way to describe the **monetary and fiscal policy responses** to the coronavirus in this country. Since February the Federal Reserve has initiated massive monetary easing. The FED has been a buyer of: commercial paper; mortgage backed securities; investment-grade corporate bonds; Treasury Bonds; asset-backed securities; and even Bond Exchange Traded Funds (ETFs). The FED also removed bank reserve requirements to encourage bank lending and has lowered interest rates to 0.25%. All historic moves to shore up the economy. The government's fiscal policy is no less forceful. Over \$2 Trillion has been allocated to bridge individuals and businesses across this economic divide. At this writing there may be another stimulus package on its way (stimulus #4) that will address infra-structure spending, among other additional initiatives.

Five Mile River's (FMR) investment strategy focuses on companies that are leaders (number one or number two) in their respective industries and generate cash flows to sustain growth in dividend payments. FMR client portfolios have dividend income that provides attractive returns averaging around 3%, depending on client investment strategies of either Growth, Balanced or Income. The holdings in several companies have been eliminated because their businesses will likely be disadvantaged coming out of this correction. Conversely, investments have been added where businesses will most likely be beneficiaries of the post-virus economy. FMR's three energy holdings represent income generation for portfolios, yet caused the brunt of the FMR Q1 performance decline. Nevertheless, these three investments continue their role as income generators because of their financial strength and continued dividend payments. Also, at the time of writing this letter there are negotiations scheduled between Saudi Arabia and Russia to reduce their output of oil, something that would finally stabilize the energy sector.

While each day gives a different read on the coronavirus, if Dr. Fauci was correct that new infections are showing signs of peaking in April, then perhaps we can look forward to more economic certainty than just a light at the end of the tunnel.

Please feel free to call or email with questions. It is customary that FMR makes its annual SEC filings (the brochure ADV Part 2*) available upon request. Please let us know if you would like a copy. We do wish you a very healthy spring and early summer.

Sincerely,



Lee



Todd



Martha

**Each year Five Mile River renews the company's registration with the Security and Exchange Commission (SEC), and as part of this process FMR updates the SEC Form ADV Part 2. The Form ADV Pat 2 is a detailed brochure*

covering all aspects of FMR's business. Please contact Martha Robbins (203-388-4810 or martha@fivemileriver.com) to request a copy of FMR's ADV Part 2.

The S&P 500 Index is a market capitalized weighted index of 500 companies. It is a growth-biased index because the larger the capitalization of a company, the larger the weighting it contributes to the S&P 500 Index performance. The index referenced includes the dividends issued by these 500 companies. This index is used for a comparison for FMR accounts.

The performance data included in this letter are not audited and have not been otherwise reviewed or verified by an outside party. While Five Mile River Investment Management, LLC endeavors to furnish accurate information, investors should not rely upon the accuracy or completeness of this information.

This letter is not meant as a general guide to investing, or as a source of any specific investment recommendation, and makes no implied or express recommendation concerning the manner in which any clients' accounts should or would be handled as appropriate investment decisions depend upon clients' investment objectives. Any offer to sell or the solicitation of an offer to buy any interests in any securities may be made only by means of delivery of a Five Mile River Investment Management Agreement and/or other similar materials which contain a description of the material terms and various considerations and risk factors relating to such securities or fund. Different types of investments and/or investment strategies involve varying levels of risk, and there can be no assurance that any specific investment or investment strategy will be either suitable or profitable for a client's or prospective client's portfolio, and there can be no assurance that investors will not incur losses.