MV Special Update

April 13, 2020

To Our Valued Clients:

In the past few weeks, we have all had to contend with the immense challenges posed by the Covid-19 coronavirus and its impact on the economy, society and our personal lives. Many of you have come to us with questions – asking how you can best protect your assets today, and what we at MV Financial are doing to steer a prudent course at a time of unprecedented market turmoil.

While we don't have all the answers, given the uncertainties of the situation, we have tried to respond to some of the key questions that you may be thinking about. We encourage you to reach out to us with further questions, which we plan to address as we communicate with you in the days and weeks to come.

How does this market compare to/differ from other downturns you have seen over the years?

Your MV Financial team, collectively, has over 120 years of experience navigating investment markets and caring for the financial well-being of clients. In our experience, we have seen – and survived – several market downturns. What is different this time is that there is not only one force at play, such as in a "financial crisis" or "business cycle downturn." Rather, we are experiencing a health crisis, spawning a jobs and markets crisis, with the potential to create an asset crisis. So, we have to deal with all these factors at the same time.

We take comfort in the knowledge that the economy and markets have always recovered and come back stronger, although this will require intense efforts by policymakers, investment managers, and individuals to address both the health and financial impact of the virus.

Has MV Financial's overall investment philosophy changed as a result of the Covid-19 outbreak?

Our fundamental approach to caring for our clients' wealth has not changed, because we have always been aware of the risks inherent in market cycles. We always tell clients, "First and foremost, protect assets." That has meant following a relatively conservative path to *mitigate downside while participating in upside*. Our philosophy has led us to build risk-tailored and (where applicable) tax-efficient strategies aligned with long-term client objectives.

While our philosophy has not changed, today's conditions call for selected defensive actions to protect our clients, particularly those with more immediate time horizons to income needs. In response to the Covid-19 challenges, we have been emphasizing liquidity and quality in most portfolios, including short-duration bonds, high-grade corporate issues and Treasurys.

You Put In One, We'll Put In Ten

Fed money will be printed to inject into three of the signature programs in the relief package: the one for small and mid-sized businesses, a second one for a somewhat vaguely-defined "Main Street," and one for state and local municipalities. Each of these programs got a specific earmark from the Treasury Department under the terms of the Congressional bill: $345 billion for small business loans, $75 billion for the Main Street fund and $35 billion for municipalities.

But each of these will be augmented by the Fed. The central bank will make an additional $2.3 trillion available in loans to small and mid-sized businesses, and also provide an operational tool to help banks involved in the $350 billion relief program for small businesses to execute their loans. It will backstop the $75 billion Main Street program with up to $600 billion, and likewise it will lever up the $35 billion municipal program to the tune of $500 billion.

How can we avoid the heightened sense of both fear and greed that is pervading the markets?

We believe the best policy for investors is still to create an appropriate allocation relative to one's time horizon, and then stick to it. Avoid paying undue attention to the daily market swings. Easier said than done, we realize, but snap decisions are generally bad decisions.

Should investors go to all cash right now?

No. Locking in steep losses is severely detrimental to long-term financial objectives. Portfolios should be positioned more defensively than usual, but should preserve opportunities for growth participation. Of course, positioning should depend in part on a client's specific time horizons. For example, our Conservative Growth portfolio held 56% equities through most of 2019, but at this time it has a target weight of 50% in equities, 35% in fixed income, and the balance in liquid alternatives and cash.

Does it make sense now for investors to try to "pick winners," such as stocks that may benefit from current conditions, such as grocery retailers or healthcare product makers?

Current conditions are extremely volatile and it is far from certain that we are near a bottom for equities. It's better to use this time to do the research and have a short list of opportunities to act on when volatility starts to subside.

Once the economy and markets recover, do you foresee a change in overall investment strategy (for example, a change in the equity/fixed income split)?

We think the basic risk decision of equity versus fixed income will still be a first-order portfolio priority. Of course, we will likely have some different views about correlation properties and the specific risk characteristics of different asset classes and investment vehicles (bond ETFs, for example). The economy itself is also likely to be different in meaningful ways (perhaps shifting to more digital commerce and remote-work models), and that will influence asset selection.

Some are expecting another Great Depression, rather than a recession. Is that likely?

Because this is both a health and economic crisis, the main variable here is how long it will take for the virus threat to be sufficiently reduced to allow some semblance of normal economic activity to resume. That would suggest a sharp decline for several months with a gradual recovery thereafter. That is very different from the Great Depression, which persisted for nearly an entire decade.

The coronavirus pandemic is a textbook Black Swan: it manifested suddenly and defies predictive analysis (scenario planning for the pandemic was not in anyone's playbook when making 2020 outlook decisions last December). What's important to remember is that vigilant investing entails the ability to rapidly absorb, analyze and act on new information (with discipline and avoiding panic selling). As the situation unfolds, please be assured that MV Financial will continue to focus on distilling multiple confusing strands of the crisis into clear communication – and prudent investment strategies – to help protect our clients' wealth and peace of mind.

Please let us know if you have questions or concerns by calling 301-656-6545 or e-mailing your advisor. We wish you and your loved ones continued health and security.

- The MV Financial Team