
MVF Special Update

July 7, 2020

To Our Valued Clients:

Our thoughts are with you as we collectively strive to navigate uncharted territory, whose rough terrain reflects the COVID-19 crisis, economic uncertainty, and political and social divisions. During these challenging times, we hope that our perspective on the financial markets is helpful to your investment decision-making.

While it may seem that the problems we face have been dragging on endlessly, the reality is that we are in the early stages of the current cycle. The Coronavirus outbreak began making headlines in late 2019-early 2020, but the first stay-at-home orders in the U.S. were issued in mid-March. Strange as it may seem, we have lived through only one full quarter of economic dislocation related to the pandemic.

Short-Term Volatility vs. Long-Term Goals

In this context, it is too soon to know how the situation will play out – and it certainly is *no time* to be making rash or ill-considered financial moves that may impact your financial future for many years to come. For example, we have been asked whether now is the time to sell one's entire portfolio and convert into cash. Conversely, others have asked if there is a downside to holding too much cash. Still others have asked about investing in alternative assets such as gold, cryptocurrency or real estate.

While every client's situation is unique, we continue to advise our clients to make decisions consistent with their investment goals, time horizons and risk tolerance. In most portfolios, we favor maintaining defensive positions in assets that provide liquidity and quality. At this time of extreme volatility in the equity market, our model allocation to stocks is not zero, but it *is* at the bottom end of our target range. We are not advocating excessive cash positions unless there is an expectation of an immediate need for liquidity.

We have always believed that investment decisions should be data-dependent. But *which data* you depend on is also important. A recent [MV Weekly Market Flash](#) co-authored with our colleague Katrina Lamb made the case that the equity market is in a bubble, decoupled from the performance and prospects of the actual economy. Forward P/E has been trending higher than at any time since the summer of 2000. An analysis of market "sentiment," as measured by the volume of put and call options trading, reveals a wild shift in sentiment from fear to greed and back again.

Medical Data Beats Market Data

But, the data that *really counts* right now is related to the course of the pandemic. After a brief period when the curve of reported COVID-19 cases in the U.S. seemed to flatten, and most states began easing lockdown restrictions, the [number of new cases](#) in this country again began rising by roughly 40,000 per day. Amid news of the increase in cases in several states, the DJIA plunged 710 points on June 24, 2020.

All of this suggests that medical data will be more meaningful than market data for the time being. Investors should watch for signs of a sustained flattening of the COVID-19 curve, and more progress on testing, tracking and vaccine development, before wagering their long-term financial health on short-term market fluctuations.

We continue to advocate a patient and prudent stance on investment decisions. We remain quality-oriented, while monitoring conditions, assessing risks and opportunities, and regularly “taking the temperature” of an economy that is not yet displaying signs of recuperating from the ill effects of the pandemic.

As always, feel free to reach out to us at any time to discuss your investment and financial questions further. All of us at MV Financial wish you and your family well.

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