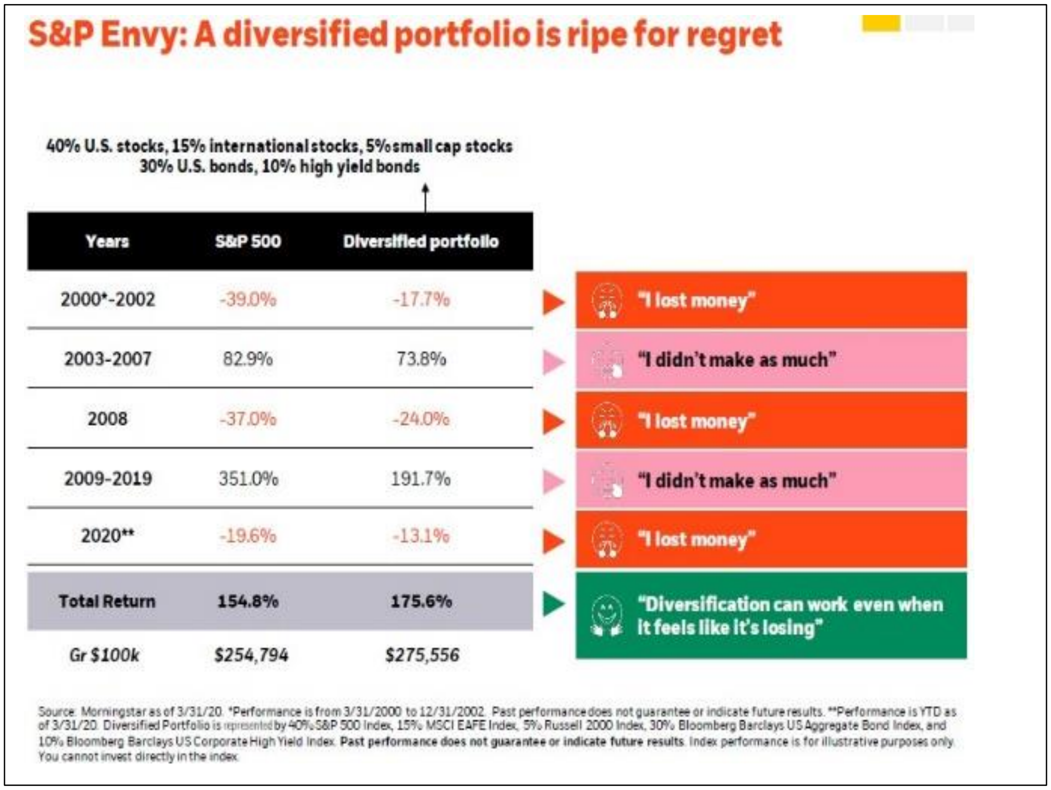
MEDALLION WEALTH MANAGEMENT

CLIENT UPDATE 4/17/2020

The first quarter of 2020 is officially behind us and will go down in history as one of the most volatile and worst quarters for US equities. At this point, the market of early 2020, which was a continuation of a robust 2019 and had some pundits calling it the "Teflon" market, seems like a distant memory. Unfortunately, the Teflon market was no match for the fallout from the 2020 novel coronavirus. When it became clear in February that community spread would not be contained in China, the virus and the measures implemented to slow its spread wreaked havoc on markets worldwide. On the surface, 1Q20 was historically bad – the Dow Jones Industrial Average had its worst first quarter in history being down -23.2% (*Source: Dorsey Wright)*. Below the surface, the intra-quarter numbers were even bleaker. From its closing high on February 19th to its closing low on March 23rd, the S&P 500 experienced peak to trough drawdown of nearly 34% in just 19 trading days (*Sources: FactSet and Dorsey Wright)*, one of the most accelerated declines ever. In just over a month, the index had given back all of the gains it made since the beginning of 2017.

Similar reactions were seen in markets around the globe. The turbulence of the first quarter was not limited to the equity markets. US Treasury yields, which were already hovering near all-time lows, dropped precipitously, falling far below previously established lows, and subsequently, experienced wild swings from there. The US Treasury 10-year yield fell below its previous low around 1.45% all the way to 0.40%, before swinging back to 1.25%, and then falling again (*Source: Dorsey Wright)*. Meanwhile, yield spreads on investment grade and high yield (junk) bonds, which measure the perceived riskiness of these bonds, reached their highest levels since the global financial crisis. Commodity markets were also impacted as crude oil prices dropped more than 60% to their lowest levels in more than a decade. This decline was largely attributed to decreased demand due to the coronavirus and a potential price war between Russia and Saudi Arabia.



S&P Envy: A diversified portfolio is ripe for regret

40% U.S. stocks, 15% international stocks, 5% small cap stocks
30% U.S. bonds, 10% high yield bonds

Years	S&P 500	Diversified portfolio	
2000*-2002	-39.0%	-17.7%	"I lost money"
2003-2007	82.9%	73.8%	"I didn't make as much"
2008	-37.0%	-24.0%	"I lost money"
2009-2019	351.0%	191.7%	"I didn't make as much"
2020**	-19.6%	-13.1%	"I lost money"
Total Return	**154.8%**	**175.6%**	"Diversification can work even when it feels like it's losing"
Gr $100k	*$254,794*	*$275,556*	

Source: Morningstar as of 3/31/20. *Performance is from 3/31/2000 to 12/31/2002. Past performance does not guarantee or indicate future results. **Performance is YTD as of 3/31/20. Diversified Portfolio is represented by 40% S&P 500 Index, 15% MSCI EAFE Index, 5% Russell 2000 Index, 30% Bloomberg Barclays US Aggregate Bond Index, and 10% Bloomberg Barclays US Corporate High Yield Index. **Past performance does not guarantee or indicate future results.** Index performance is for illustrative purposes only. You cannot invest directly in the index.

The chaos of the first quarter was sobering, and the market remains on decidedly uneasy footing; however, things have already improved from where they were just a week or two ago. There has been large-scale monetary and fiscal intervention to help stabilize the market and the economy. As of market close on April 7th, the S&P 500 had gained more than 18% from its low close on March 23rd (*Source: FactSet*). Investors should remember that the disruption will eventually end and the economy will bounce back. We have been using the turmoil as an opportunity to rebuild and rebalance portfolios into higher quality companies, many of which have a long history of paying and increasing their dividends. As Warren Buffett put it, "We don't have to be smarter than the rest. We have to be more disciplined than the rest."

As the accompanying chart indicates, the S&P 500 alone outperformed a diversified portfolio during strong bull markets; however, it was a diversified portfolio that yielded the better result over the past 20 years. It is said that a properly diversified portfolio always leaves you feeling like you missed something. At Medallion, we serve many clients with varying goals. During this time, and always, we will work to position your portfolio in the best manor possible for your individual goals while keeping a steady hand on the long-term view.