GREAT DIAMOND
PARTNERS

**Monday, March 9, 2020**

In my 27 years in this business, today was one of the more remarkable days I've ever seen. I experienced the tech bubble, financial crisis and plenty of other "skirmishes," but today stands out. It's certainly uncomfortable. Markets don't like uncertainty and detest bad news that comes out of left field. Given the dramatic news regarding the Coronavirus, the Saudi/Russian oil price war (from left field) and presidential election, it's no wonder the stock market was down 7.9% today.

At the same time, the foundation of our investment process, asset allocation, is making a difference. After several years of modest returns from bonds, especially compared to stocks, it was easy to question their inclusion in portfolios. The last two weeks show why we own them. As interest rates dropped dramatically- the 10-Year U.S. Treasury has declined from about 1.6% to 0.5% in just a month- bond prices went up. Up! Bonds have done a great job mitigating some of the losses in stocks.

What follows are a few brief thoughts. Please realize that my crystal ball is a bit foggy, so these thoughts and predictions are far from guaranteed.

*Coronavirus:* First, we hope you and your loved ones are healthy. Second, the virus will certainly impact our economy. Supply chains, especially emanating from China, are disrupted. Economic activity in the U.S. will slow as people and companies adjust in an attempt to mitigate the spread of the virus. This will very likely result in a recession. By no means does that mean running for the exits- stocks have made it through many recessions in the past.

*Oil:* The dramatic drop in oil prices (-24% today) will certainly impact energy companies and related industries. It will also impact the high yield bond market. At the same time, the drop should lower prices for those of us that heat our homes and drive cars…which is most of us.

*Politics:* Tomorrow's primaries may clear things up a bit, however we could easily see a contested Democratic National Convention. Then we enter the

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interminable general election season. If 2016 is any guide, we may not know the outcome until that Wednesday morning in November.

*Markets:* Yes, the last two weeks, especially today, have been lousy for stocks. Historically, trying to "get out until things clear up" is difficult if not impossible. There are reasons for hope- interest rates and energy prices are low and China seems to be emerging from the virus crisis. In addition, while stock prices were somewhat inflated earlier, we are not aware of meaningful bubbles like we saw in 2000 (technology) and 2008 (real estate).

*Responses:* The Federal Reserve already cut overnight interest rates by 0.50% and the bond market suggests they will take additional action later this month. In addition to this monetary stimulus, there are numerous other technical efforts they can engage in. Given all politicians want to get reelected, it's also reasonable to expect a fiscal stimulus package from Congress and the President.

*What We Are Doing:* While all clients vary a bit from one to the next, there are some common themes. First, we are not selling stocks wholesale, and in fact, are looking at some interesting opportunities. Second, within stocks, we expect to migrate from smaller companies to larger ones- they should withstand a likely recession better. Third, we will likely reduce international stocks and add a bit to corporate bonds. And fourth, we are not buying more U.S. Treasuries due to their outrageously low yields. These changes follow our discipline and are not an emotional reaction to a single- albeit a dramatic- day.

Finally, we would like to thank you. In general, your reactions over the last few days have been calm, reasoned and long-term oriented. We have great pride in Great Diamond Partners and believe more than ever that this independent firm allows us to act 100% in your best interests. Please do not hesitate to call or email us with any questions that come up.

All the best,

Steven

**STEVEN TENNEY**

Founding Partner & Chief Executive Officer

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