



GREAT DIAMOND PARTNERS

Sunday, March 29, 2020 | Sailing With Dorian

September, 2019: With Hurricane Dorian skirting the coast of Maine about 20 crews thought it would be a good idea to have a sailboat race. The wind was gusting to 30 knots and everyone prepared themselves and their boats for a rough ride. Sailing upwind, we faced the full force of the wind and waves. Crews were soaking wet, bruised and tired. [Author's note: We do this for fun!] At the same time, we still had to make strategic decisions - it was a race, after all. What route is the fastest? Where should we position ourselves relative to the other boats? What adjustments do we need to make for the safety of the crew and boat?



After reaching the windward mark, we turned around to go straight downwind, set our spinnaker (the big balloon sail) and took off like a rocket. The wind was blowing from directly behind us, no longer in our faces, so it felt less dramatic. However everyone knew Dorian was still there. She was still causing boats to wipe out, and in just a few minutes we would have to go back up wind.

What does this have to do with the bizarre world we live in today? Let's discuss three financial and economic numbers: 3.3 million, 21% and 60.

On Thursday last week, unemployment claims jumped to a jaw-dropping 3.3 million¹. The previous high was a "paltry" 695,000 in 1982 - more than after 9/11 and during the financial crisis. As expected, Covid-19 is having a dramatic impact on our economy, especially the service sector. Nationwide, restaurants, retail shops and

¹ DOL: <https://www.dol.gov/ui/data.pdf>

most service businesses simply and suddenly closed their doors. This will continue - the key question is how long. The sooner we can get through it the easier it will be to recover. If it's a prolonged downturn, businesses will be forced to make more permanent decisions. Just like Dorian, this is a heck of a storm. The sooner she moves offshore, the sooner we can return to normal.

On Thursday, the same day we got the 3.3 million number, we turned downwind and the stock market capped off a three day run of 21% - the biggest jump since the 1930s. In just three days we got what is a great number for an entire year. Having said that, lousy stock market environments can have material short-term reversals. In our opinion, it is possible that we have seen the bottom. However...

In this sea of uncertainty, one thing that is clear is we are still in the middle of a storm. As we flew downwind, we knew it was still windy. With the stock market, one measure of volatility (wind strength) barely budged this week, sitting right at 60². For perspective, it's been in the 10-15 range for several years. Keep in mind that volatility does not distinguish between up and down. It certainly feels better when prices go up dramatically, but that doesn't mean the wind has let up. We will need to take the spinnaker down and go upwind again.

Just as we made strategic sailing decisions during Dorian, we are making strategic investment decisions amidst today's economy and markets. What opportunities should we take advantage of? What persistent risks should we attempt to mitigate? We have been selling U.S. Treasuries and buying municipal bonds to increase income, improve taxes and take advantage of price dislocations. We have even rebalanced some accounts, adding to stocks at lower prices. We will continue to ask ourselves these two questions and act accordingly.

By the way, this was a two-day regatta. Sunday was a clear, beautiful day on Casco Bay...and there was so little wind that we couldn't race. Hurricane Covid will also pass.



STEVEN TENNEY

Founding Partner & Chief Executive Officer

² INDEXCBOE: VIX



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