



Bayswater Group –Market Update and Our Thoughts (March 6, 2020)

Volatility is not fun. We admit it. We are fully aware of how jarring the emotional rollercoaster can be. Most advisors or commentators will insist that you should simply *ignore the noise; focus on the long term; stick to your plan*. While these sentiments are mostly well-intentioned, to us, they seem akin to telling a client to not be human. We are all emotional beings. We will keep you informed about how your portfolio is performing and of the decisions we are making as we navigate the volatility.

The market swings over the past two weeks have been fast and aggressive. As I write this note on Friday at 10:30 am the S&P 500 is down another 91 points. It closed yesterday 10.7% lower than its peak on February 19th 2020. In comparison, the portfolio we manage for our clients was down approximately 2.75% over the same period. Thus far, our allocation decisions have held up quite well. As noted last week, we are very underweight in equities and fixed income. We also have a healthy position in gold and several hedged strategies that have been buoying the portfolio through this market sell-off. To be clear, we are not immune to drawdowns and we will likely concede more ground before this is behind us. However, we are quite comfortable with our current positioning and consider further pullbacks as an opportunity to invest at more attractive prices.

As mentioned last week, COVID-19 is truly an unknown variable. From our perspective, it is best to assume that we do not understand very much about the virus. We don't believe we have any idea of how prevalent the virus is in most jurisdictions. Further, we are still guessing at the virus's R_0 and its mortality rate; there simply have not been enough tests completed to create a conclusive data set.

In the face of this uncertainty, we will be waiting to see if COVID-19 spreads throughout the rest of Europe and North America in a similar fashion to China, Iran, and Italy before adding a meaningful amount to our equity allocation. Economies will suffer if mass quarantines (mandatory or voluntary) become necessary to control the spread of the virus. The market reaction to an outbreak in the U.S.A. and Europe is likely to be swift and significant. We are not epidemiologists, but such an outcome has a non-zero probability. Therefore, we are proceeding with an abundance of caution.

As always, we invite clients to reach out to one of us directly with any specific questions. Again, thank you for trusting us with your family's savings. We will continue to work hard to make well thought-out, prudent, decisions on your behalf.

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