MIDWEST CAPITAL
ADVISORS™

April 1, 2020

We want to keep you informed during these challenging times. First and most importantly, we extend our best wishes to our readers. We hope you are all healthy and managing the COVID-19 crisis as well as can be expected. Second, we send our appreciation to all those on the front line, including doctors, nurses, first responders, public safety personnel and researchers, all of whom are going above and beyond in order to control and eventually defeat the virus.

Prior to the coronavirus pandemic, the market was near all-time highs, and the bull market was still charging ahead. When it became clear that the virus was a far bigger issue than originally perceived, stocks around the world sold off significantly in a rapid fashion. Valuations (measured by price/earnings ratio) dropped precipitously[1]. They have improved as the market has, but it is still difficult to project forward earnings (and therefore some indication of where the market might be headed) because of the uncertainty about when people can go back to work, when their ability (or desire) to spend is likely to return, and when the economy will see the results of that[2]. While it is almost certain that we will experience some level of recession, we don't know how deep or long it will be.

We do know that the economy was very healthy prior to COVID-19, and there were no significant, fundamental problems. Unlike 2008 what we are now faced with is **not a financial crisis**, but rather a health crisis, and those tend to be much shorter in duration[3]. Also, unlike 2008, banks are in the strongest capital positions ever, and strong banks with the ability to lend are important to the sustainability and health of the economy. There is no systemic risk; governments are intervening in the markets to stabilize them and supplying much needed fiscal and monetary policy stimulus and coping assistance.

Any severe market turbulence can tempt people to abandon their financial and investment plan. Adding an unprecedented health crisis increases the temptation significantly, especially when we are cooped up at home with limited distractions. We can't tell you when things will turn or by how much, but our expectation is that bearing today's risk will be compensated with positive expected returns. That's been a lesson of past health crises, such as the Ebola and swine-flu outbreaks earlier this century, and of market disruptions, such as the global financial crisis of 2008–2009. Additionally, history has shown no reliable way to identify a market peak or bottom. These facts argue against making market moves based on fear or speculation, even as difficult and traumatic events transpire.

During these times we encourage you to keep the following in mind:

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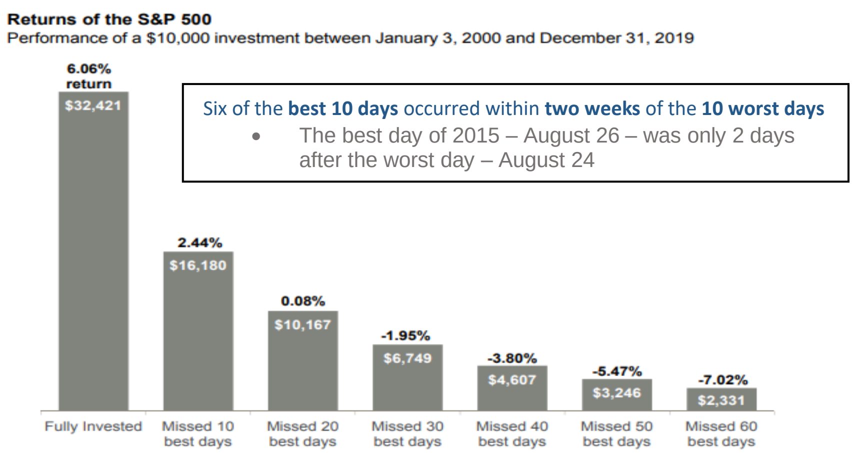
[1] According to J.P. Morgan, as of March 27, 2020, the forward S&P 500 Index Forward P/E Ratio stood at 15.05, some 7.8% below its long-term historical average of 16.32.

[2] The extreme volatility and fallout from the rapid spread of the virus has even caused some Wall Street firms to suspend their year-end estimates due to the unprecedented economic uncertainty that now exists. This is not necessarily a bad thing in our opinion as, under the circumstances, it would be speculative at best.

[3] https://midwestcap.com/mca-insights/entry/covid-19-and-the-market

Staying invested is key

Someone who reacts to a crisis by exiting the market is just practicing a form of market timing, meaning that they are predicting when the markets will have a positive or negative return. Ill-advised selling is unfortunate because you have then locked in your losses. Additionally, if one flees the market after a crisis, he or she must decide when to return to the market. In many cases the decision to re-invest comes after a rebound has begun. If you miss the bottom, even by a few weeks or months, you can miss the quickest part of the recovery. The chart below shows the performance of a fully invested portfolio compared to those that were out of the market for various numbers of days on which the S&P 500 Index had its biggest "up" days. Note that, not only did a fully invested portfolio outperform the market timing portfolio, but that often the biggest "up" days occurred within just a few days of the "worst" market drops. 2020 has illustrated this last point well as seen on March 13 and 24, when the S&P 500 Index was up 9.3% and 9.4% respectively.



Source: J.P. Morgan Asset Management analysis using data from Bloomberg.

Following market downturns, returns have been significantly positive

Downturn			Recovery		
			Post-Downturn Cumulative Return		
Timeframe of Downturn	How many months	% Decline	1-year later	5-years later	10-years later
October 9, 2007 – March 9, 2009	17	-56.8%	68.6%	178.0%	n/a
March 24, 2000 – October 9, 2002	31	-49.1%	33.7%	101.5%	85.6%
July 16, 1990 – October 11, 1990	3	-19.9%	29.1%	96.1%	361.9%
August 25, 1987 – December 4, 1987	3	-33.5%	21.4%	93.0%	334.6%
November 28, 1980 – August 12, 1982	20	-27.1%	58.3%	224.5%	307.9%
January 11, 1973 – October 3, 1974	21	-48.2%	38.0%	76.0%	160.8%
November 29, 1968 – May 26, 1970	18	-36.1%	43.7%	30.7%	59.6%
February 9, 1966 – October 7, 1966	8	-22.2%	32.9%	36.6%	41.4%
December 12, 1961 – June 26, 1962	6	-28.0%	32.7%	75.2%	105.4%
August 2, 1956 – October 22, 1957	15	-21.6%	31.0%	41.0%	144.7%
May 29, 1946 – June 13, 1949	37	-29.6%	42.1%	110.9%	322.6%
March 6, 1937 – April 28, 1942	62	-60.0%	53.7%	92.4%	215.3%
September 7, 1929 – June 1, 1932	33	-86.2%	121.4%	262.7%	86.1%
Average	**21**	**-39.9%**	**46.7%**	**109.1%**	**194.6%**

The table above shows all of the bear markets since 1928, as defined by Standard & Poor's. The returns are price returns only, not total returns, and thus do not include dividends. Past performance is no guarantee of future results. Thus, the table should not be taken as an implication of future returns. Rather, it should serve as a reminder of the past resiliency of U.S. financial markets.

Sources: Standard & Poor's; American Century Investments 2019.

The good news is that in every case markets have come back, and often have made sizable gains in the months immediately following a downturn. As of March 31st, the S&P 500 Index is more than 15% higher than the

March 23rd low. The past is no guarantee of future results, but historically even the worst markets have been temporary dips in a general march higher for stocks. Look at the chart above for a listing of every bear market (defined as a decrease of 20% or greater) since 1928 and the subsequent market recovery.

As the chart illustrates, even the worst of these bear markets ended up with positive returns, most quite quickly and significantly. Will this happen again? No one knows of course, but the market's ability to dig itself out of deep holes is not something that the long-term investor should bet against. It has surmounted great challenges before and likely will again.