DANN ASSET ADVISORS, LLC

Interim Update
Market Volatility
March 12, 2020

Our last update was sent February 26, with the market having fallen 7.6% from its peak just a week before. As we write this morning, the S&P 500 index is roughly 25% below the February 19 high. The speed with which the market has fallen, combined with the spread of the covid-19 virus, has made for unsettling times. We don't know whether the market's decline is a panic (meaning an overreaction to perceived risks) or warranted (things are going to get really bad) and a harbinger of further declines. We do know the current decline at this point seems just as drastic as other sudden declines we've invested through over the years.

In our opinion, what is happening now is that investors are grappling with the huge uncertainty of the covid-19 virus and its impact on the economy and earnings (to put aside the material and sometimes devastating impact on peoples' lives). In our recent update we noted that managements that had begun talking about the virus' impact were focused mostly on the very near term (first quarter). Now managements are taking a longer-term view and acknowledging the great uncertainties – airlines, for example, are cutting back flights at least into the summer, and Princess Cruises has suspended cruises for at least two months. The market's decline is an acknowledgement that earnings are going to be impacted much more significantly and severely than initially anticipated.

It doesn't make sense for us to speculate on how the virus is going to play out. Among the key variables are how many people get sick, how sick they get, how the government responds, and how people respond. The last is important because if by some chance the virus is less severe than currently feared, peoples' perceptions and actions can still have a material negative impact on the economy. We're also concerned that this could be a "rolling" virus … for example, Washington state could take actions to bring contagion under control only to have a severe outbreak in another state/region weeks later. The longer the "crisis" period lasts, the tougher on the economy and markets.

Bringing this back to the markets and clients' equity portfolios:

- Most client portfolios are a combination of indexed exchange traded funds (ETFs) and actively managed mutual funds. Some client portfolios also include individual stocks.
- Given concern about market levels at the end of 2019, our "theme" for 2020 has been to upgrade the quality of the actively managed mutual fund holdings. This isn't to say we didn't have what we believed were quality funds before; it does mean that we wanted more defensively positioned funds that we felt would protect better on the downside.
- In this regard, we exchanged one fund for another in January (discussed in February 26 update) and recently completed selling a fund focused on small cap value stocks. Both the sold funds were long-time holdings that had been owned for most clients for several years. Proceeds were mostly put into existing positions, one small new position for some clients, and a small amount, for some clients, left in cash.
- With respect to the ETFs, these track indices like the S&P 500, small and mid-cap stocks, and healthcare, the last a sector that we've wanted long-term exposure to. The small new position purchased for some clients is an ETF that focuses on the technology sector. The indexed ETFs will, per their mandate, track their respective indices.
- With respect to individual stocks, we've not made significant changes, believing that what we already held was very high quality (strong balance sheets and cash flow generation

capabilities). Having said that, in aggregate the individual stocks have definitely participated in the decline.

We've never been "market timers" and don't believe anyone can consistently and successfully know when to sell and buy back in (tax issues aside for taxable accounts). We know that if we sold every time we were "nervous" about something, our clients would be worse off for it. The current crisis may be the case when it really "is different this time" but selling based on that assumption doesn't make sense to us, based on market history.

Especially with the upgrades we've made year to date, we're very comfortable with what clients own. We've been through the top holdings of the actively managed mutual funds owned by most clients, and know that companies like Microsoft, Verizon, UnitedHealth, Coca Cola and Disney (yes, hurt significantly near term by virus impacts) are going to come out strong on the other side of whatever economic downturn we may be entering. Looking beyond the current downturn, the market will be rational and likely find a bottom when the virus' impact on the economy and earnings become clearer.