Notes from the Trading Desk

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Market Mover & Shakers

It was another rough and historic week for U.S. equities. The S&P 500 dropped 8.79%, while the Nasdaq dropped 8.17%. The Dow lagged both of those two, as it fell 10.36%. The Russell 2000 fell 16.50% — the worst week for the small cap index since 1987. No sectors were spared from the damage, though some corners of the market fared better than others. The sharp drop in Crude decimated the Energy sector, as Energy fell 24.28% for the week — its worst week since October 2008. The volatile swings in yields left interest-rate sensitive sectors such as Utilities struggling as well. Tech, Health Care, and Communication Services fared the best as they all fell less than 7%. Treasuries ended mostly weaker, though the rally in yields on Monday left the entire curve below 1% at one point. Treasuries also garnered much attention as rumors of potential liquidity issues circled throughout Wall Street.

For the first time since November of 1929, the S&P 500 closed either up or down 4% every day of the week. Last week's wild action truly started on Sunday evening. Dow Futures opened down 1,000 points Sunday evening as the combination of growing Covid-19 fears and the rising oil related tensions between OPEC and the Russians were too much for the market to handle. The Saudis elected to ramp up oil production to punish and target Russia following the Russian refusal to participate in production limits at the most recent OPEC meeting. As markets opened on Monday, Crude sold off sharply — having its worst day since the start of the Gulf War in 1991. The sharp drop in oil punished the Energy sector, which ultimately led to the blowout in high yield credit spreads, as Energy firms make up a meaningful amount of high-yield debt. All of these factors caused the market to open limit down — for the first time since 1997 — as trading was halted for 15 minutes before ultimately dropping 7.60% for the day. Markets then broadly rallied on a Turnaround Tuesday as President Trump suggested that major fiscal stimulus was on the way. Bears, however, regained the upper hand on Wednesday as the S&P 500 fell –4.89% — giving up the entirety of the previous day's gains — as recessionary fears began gripping the markets. However, the worst drop of the week — and the worst drop since 1987 — was on Thursday following a Wednesday night speech from the President that was perceived by the market as lacking any new measures that were not previously announced. The circuit breakers hit once more on Thursday as markets slid more than 7% right away. As markets fell, the Fed announced it would provide $1.5 trillion in temporary liquidity. The S&P 500 jumped over 6% in just 15 minutes on the news. However, the rally was short lived as the entire rally was faded all the way into the close, before closing on the lows down 9.51%. Finally, markets screamed higher into the close on Friday as the Administration detailed plans to combat the virus.

The recent slide in markets has been nothing short of harrowing for many investors. The S&P 500 fell 26.7% from its February 19th high in just 16 trading sessions. According to Bloomberg, the descent into a bear market was the fastest ever. However, after Friday's rally, we are now just trading at levels most recently seen in February of 2019. Despite entering a bear market, the S&P 500 has really only given up one year of gains! To put this into context, during the Financial Crisis, the S&P 500 hit an all-time high in October of 2007. It did not enter a bear market — marked by a 20% fall — till early July in 2008. In doing so, the S&P 500 gave up two years of gains. Similarly, it took the S&P 500 nearly a year to fall 20% following the bursting of the Tech Bubble. However, by the time it had fallen 20%, it had given back roughly 2.5 years of gains. Simply put, yes, the fall from highs has been fast and rude. However, last year's run was so remarkable in terms of gains that we have given up significantly less time on the calendar than most bear markets.

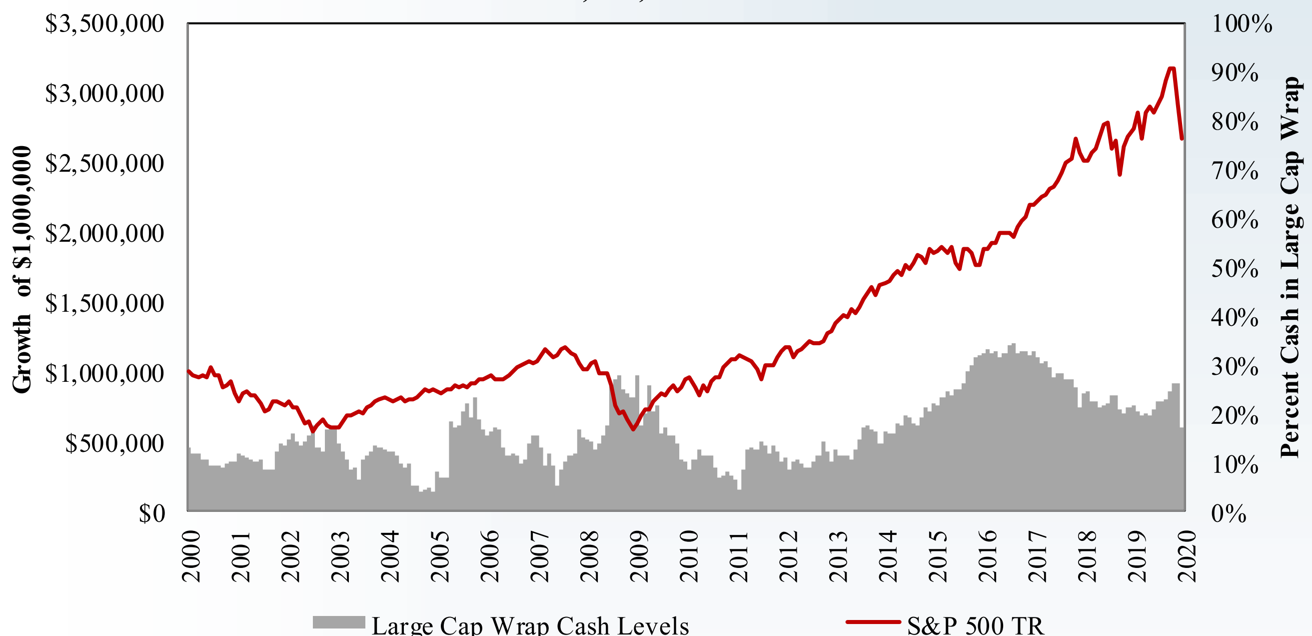
Despite the turbulent times, it is still important to stay disciplined and not panic sell. The damage of panic selling at the bottom was recently summarized in the most recent *TANDEM Report*.

> *"The cost of attempted market timing cannot be understated! Per Morningstar, from 1997-2017 the S&P 500 grew at an annualized rate of 7.2%. However, if you missed the 10 best up days during those 20 years, you would have only earned 3.5%. If you had missed the 50 best up days, you would have lost money at an annualized rate of -4.5%! It is amazing to consider that being absent for the 50 best up days of the market would result in a negative 20 year return.*
>
> *Worse still, most of the best up days occur near market bottoms. In other words, those investors that attempt to time rarely do so successfully. For those that panic and sell at the bottom, their losses are magnified. Had they simply waited a few months, most of their losses would have been recovered.[...] Most of the*

selling occurred in October of 2008. Had investors simply stayed the course, most of their losses would have been recovered within the next 24 months.

The same is true for the market sell-off in 2018. Again, the heaviest selling was at an inopportune time - in December. [...] Those that sold in December may have felt better initially, but they missed out on a wonderful 2019!"

While we may not have a crystal ball that allows us to perfectly time markets, we do have a discipline in place to help in our attempt to minimize volatility. So, we did a lot of the hard work months ago as we had been steadily raising cash to put to work during a market selloff. These elevated cash levels helped not only cushion the blow on the way down these past few weeks, but they allowed us to have dry powder to put to work and buy some names that are now trading at steep, steep discounts to their historical valuations. As one can see in the chart below, our cash levels in Large Cap Wrap have fluctuated overtime. However, we became net sellers again last summer through February and our cash levels began rising in earnest once more. By selling when markets were expensive throughout the second half of 2019, we ensured that we would have the cash to put to work once things started showing up as cheap once more. As a result, we have been net buyers throughout the selloff.



*Transition Update***

These last few weeks have been filled with lots of buying in transition accounts. In fact, we have bought nearly every name we own over the last two weeks. The only ones we didn't buy were actually still a little expensive despite the selloff, or we did not need to purchase anymore as everyone already fully owned the positions. Should this volatility continue, it would not be surprising to see continued widespread buying on the transition level. A typical transition — in a more normal market environment — can take anywhere from three to six months. More recently, it has been taking a little less than a month.

***The transition update describes activity taken by Tandem on the transition level, not the composite or firm-wide level. The transition update is applicable to new accounts and new money. New accounts and new money are not automatically invested on the first day. Rather, they are transitioned into our strategy over a longer time period that is dependent upon market conditions. This update describes that transition.*

Upgrades/Downgrades & Dividends

ACN — Upgraded to buy from hold at Société Générale, though the price target remains $205 (3/10).

BF.B — Downgraded to underweight from equal-weight at Morgan Stanley, target cut to $57 from $62 (3/9).

DG — Upgraded to in line from underperform at Evercore ISI, price target decreased to $135 from $140 (3/13).

FISV — Upgraded to overweight at Atlantic Equities, price target remains $131 (3/12).

RSG — Upgraded to buy from neutral at Bank of America, price target remains $103 (3/11).

WCN — Downgraded to neutral from buy at Goldman Sachs, target is $94 (3/13).

Earnings Calendar

Date	Time	Ticker
3/19	Pre-Market	ACN

Portfolio News & Notes

It was another busy week of buying here at Tandem. The last two weeks have been filled with us adding to a slew of names already in the portfolio. We have had the opportunity to add to Ross Stores and UMB Financial (twice) in Mid Cap; Euronet Worldwide (three times) and Henry Schein in both Equity and Mid Cap; BlackRock and Disney in Equity and Large Cap; Accenture (twice), C.H. Robinson, Intercontinental Exchange, Signature Bank, Stryker Corp, T. Rowe Price, and United Technologies (twice) in Large Cap; and Fiserv in Equity. We were also able to establish an initial position, and then add to it in NV5 (a Mid Cap holding), Essential Utilities and CBOE (holdings in both Large Cap and Mid Cap).

	WTD	MTD	QTD	YTD
Dow Jones	-10.36%	-8.75%	-18.76%	-18.76%
S&P 500	-8.79%	-8.23%	-16.09%	-16.09%
Nasdaq	-8.17%	-8.08%	-12.23%	-12.23%
Russell Mid Cap	-12.95%	-13.76%	-22.04%	-22.04%
Russell 2000	-16.50%	-18.04%	-27.47%	-27.47%
Comm. Svcs	-6.70%	-7.96%	-13.23%	-13.23%
Con Disc	-10.47%	-11.20%	-17.55%	-17.55%
Con Staples	-7.93%	-2.19%	-10.02%	-10.02%
Energy	-24.28%	-29.76%	-47.14%	-47.14%
Financials	-9.83%	-13.50%	-25.46%	-25.46%
Health Care	-6.65%	-2.02%	-11.30%	-11.30%
Industrials	-13.12%	-14.52%	-23.12%	-23.12%
Info Tech	-5.20%	-4.67%	-8.33%	-8.33%
Materials	-13.20%	-12.06%	-24.64%	-24.64%
Utilities	-14.26%	-7.45%	-11.54%	-11.54%
REITs	-8.42%	-3.89%	-8.86%	-8.86%

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