Conference Call Prepared Comments 3/12/2020

Welcome to Mallard's client conference call designed to address the current market conditions in light of the corona virus pandemic. I am Paul Baumbach, the Director of Investments, and joining me is Joe Daigle, who works with me in the Investments Department, but who has this week been promoted to Mallard's Chief Executive Officer, our CEO.

In our comments on this call we will focus on three issues-summarizing what COVID-19 is and isn't, discussing the markets and investing, and presenting what Mallard is doing.

What the virus is and isn't

There are many useful, and less-useful sources sharing information and calls to action about the novel coronavirus. We're not doctors, or even health professionals, but since we have been tracking academic and government information sources since December 2019 when the outbreak was only known to be in China—I thought it would be helpful so share a common set of facts on this call about what COVID-19 is, and what it isn't.

Coronavirus is the term for a family of viruses which are all enveloped RNA viruses. All known kinds cause respiratory infections. COVID-19 is not the flu, although it does spread in a similar fashion to the common cold, and influenza. The primary means of transmission are from droplets when someone infected coughs, sneezes, or comes in contact with contaminated surfaces. The three most common symptoms of COVID-19 are fever, dry cough, and noticeable shortness of breath. Ailments which are not symptoms of COVID 19 include sore or scratchy throat, runny nose, muscles aches, vomiting, or diarrhea.

Washing your hands with soap and water, avoiding touching your face, and Social distancing, or staying a minimum of a meter away from other people, are considered by experts to be the most important precautions anyone can take to reduce their risk of contracting COVID-19.

For the most up-to-date factual information on COVID-19 I have been relying on, and recommend looking at, CDC.gov, WHI.int, and de.gov/coronavirus.

Markets and Investing

In the 11 or so weeks this year through yesterday, the S&P has fallen close to 15% and foreign large stock funds have fallen a bit over 18%, although today by 3:30pm US stocks are down about *8½%* and foreign stocks about *10½%*. The drop from the mid-February highs are greater. This week we entered bear market territory.

Not surprisingly, investors have conducted a flight to safety, to the highest quality bonds, US government bonds. Opportunity bonds have fallen a few percent, while quality bonds have largely been fine, just less well than government bonds.

To provide some perspective, I looked at the Market Review and Outlook we prepared on March 11, 2009. For the 12 months through 2/28/2009, US stocks had fallen about 44%, and foreign stocks over 50%. Real estate was down almost 58%. Even corporate bonds had fallen, about 7%.

Let me read a paragraph, entitled Fear Happens, and Fear Spreads-Until this week, stock markets have gone in one direction in 2009, straight-downward. Like a snowball rolling down a hill, this built momentum as the weeks passed. Similarly, builds on itself, and panic is contagious.
This human behavior, to sell when stocks are low and buy when they are high, is aggravated by the cable 'news' phenomenon. Most cable financial programs are designed to sell ads, by building regular viewers. They do so by providing exciting content-the more sensational, the better. Jim Cramer epitomizes this. Cable financial programs are not designed to be educational or constructive.

That paragraph stands today. As with the 2008-2009 financial meltdown, today there is solid reason for fear. We believe, however, as with the 2008-2009 financial meltdown, this crisis will pass, and the markets will recover. The constructive question that smart investors should be asking is, is the current 25% off sale good enough, or are you willing to miss buying at these prices if the markets recover from this point.

In October 2008, in a conference call like this one, I shared that I believe in long-term investing, that I didn't know whether we were at the lowest point (we weren't, it turns out), but for Pam and me, we believed that the then-current prices were low enough, and that in the following day or two we would be boosting our stock level from 65% to 95% of our portfolio. That was over 11 years ago, and we were 11 years further from retirement, and we have since cut our stocks back down to our long-term 65% level.

Today I share with you that in the next day or two we will boost our stock level to 80%. I didn't call the low in the 2008-2009 meltdown, and I doubt that we are right there now. But this 25%off level is good enough for me.

Stocks are priced based on their future earnings. Not the next day's profits, or the next week's, or even the coming year's profits, but the profits for the next decade or more. The COVID-19 pandemic is certain to measurably cut global economic activity this year. It may have an impact next year, most likely at a much reduced level. To me, neither of these statements justify reducing stock prices by 25% from their year-end values.

Even before today's market decline, US stocks are yielding 2.3% and foreign stocks are yielding 3.9%. If you locked up a 30-year US treasury today, you would earn less than 1.5%.

Mallard's investment committee has met three times so far this month, most recently at 1:30pm this afternoon. We concluded that, while anxiety-filled, today's stock markets provide compelling values, and that the best approach for our clients' portfolios, the best way to benefit them financially, is to do what we do very well-to rebalance their portfolios. This will certainly mean selling bonds and buying stocks for portfolios we rebalance at this time. We unanimously agree that this is the best course.

It is quite possible that some clients simply cannot handle having more stocks bought at this incredibly uncertain time. For those clients we ask that you reach but to us, and request that we use our Firewall Investing™ system. While you are opted·in, during your rebalancing, we will not add a single dollar into your stocks. Rather, we will rebalance your stock money, and we will rebalance your cash and bond money, but we won't shift money from bonds/cash into stocks. Furthermore, we strongly encourage you to only take withdrawals from your cash and bond money, to let your stocks ride. Again, please let us know if you feel the need to opt into our Firewall Investing™ system.

What is Mallard Doing

The first thing we're doing is staying informed of changes in the markets and new information about the outbreak, but I think the information Paul just shared demonstrates that. Our Investment Committee typically meets once a month, but has met 3 times already this month to stay agile and up-to-date on any investment conditions which require action. Separate from the investment side, at Mallard we have a Business Continuity Plan available to direct us in the event our office is unavailable or inaccessible. Mallard Management has been updating our standing plans for this exact event to maintain our standard business activities should we be put under a quarantine and have the entire office work from home. The important thing to note, is that we plans in place to still operate even during a disaster. You can count on us to still be accessible, even if it's in slightly different ways.

You can call up, you can email us, and even if we have to quickly respond to your voicemail, we will get back to you. Your money, investment team, and financial planners are all-and will all- be accessible.

Questions?