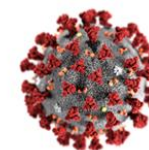


# WELCOME TO OUR WEBINAR



## HOSTED BY: CHRIS GUNTHER

Chris is a portfolio manager and Senior Equity Strategist. He leads equity research and market strategy efforts at MONTAG. His expertise includes stocks and bonds, with particular focus on technology stocks and growth investing.

Prior to joining MONTAG in 2018, Chris was President, Chief Investment Officer and founding partner of an institutional investment firm in Atlanta. For nearly 20 years, he served as a lead portfolio manager overseeing billions in small and large cap growth equity mutual funds. Chris has been investing in public securities for 30 years professionally. He has significant experience investing in real estate, franchises, and small businesses. He believes his broad experience helps MONTAG clients whose wealth has been cultivated in similar ways over the years.



## MONTAG Wealth Management

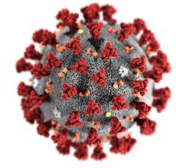
As an independent registered investment advisory firm based in Atlanta, we are dedicated to preserving and growing our clients' capital. Our work is centered on our clients' best interests. At MONTAG, we:

- Manage approximately \$1.9 billion in client assets as of 12/31/19 for approximately 300 clients.
- Understand that families and organizations have highly specific needs, which requires the building of long-term trust.
- Receive no product or transaction-based compensation.

Since Anthony Montag founded our firm in 1982, we have grown into a 27-person organization with broad and deep research capacities, and we understand how to shepherd long-term focused investment portfolios through the many different conditions of global economic change.

# COMPLIANCE DISCLOSURE

- The information provided is for illustration purposes only. It is not, and should not be regarded as “investment advice” or as a “recommendation” regarding a course of action to be taken. These analyses have been produced using data provided by third parties and/or public sources. While the information is believed to be reliable, its accuracy cannot be guaranteed.
- Any securities identified were selected for illustrative purposes only. Specific securities identified and described may or may not be held in portfolios managed by the Adviser and do not represent all of the securities purchased, sold, or recommended for advisory clients. The reader should not assume that investments in the securities identified and discussed were or will be profitable.



## Coronavirus Covid-19

Timeline

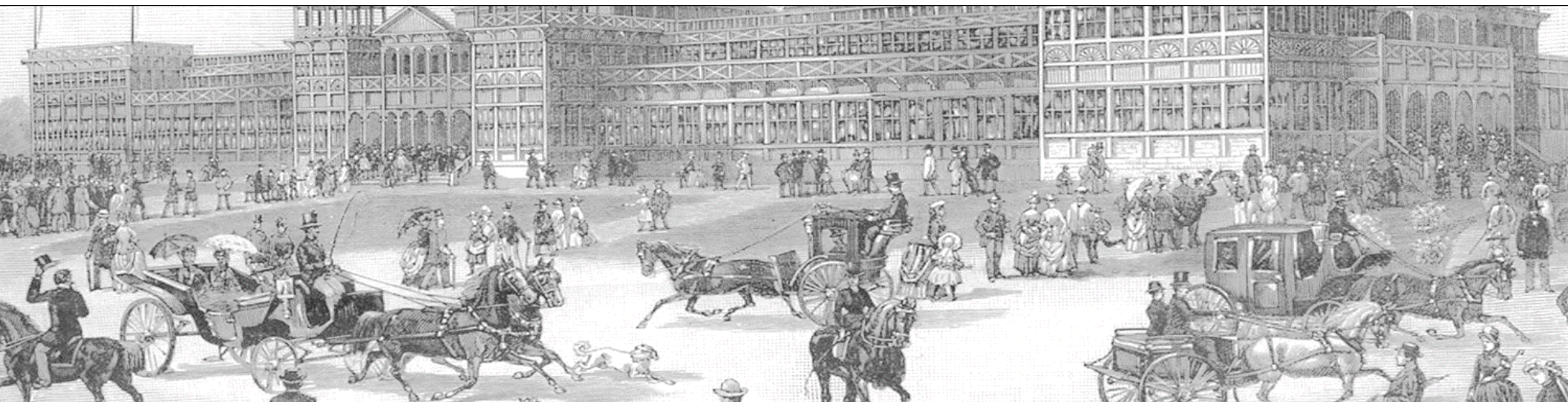
Phases

Perspective

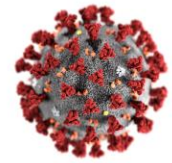
Observations

Action Items

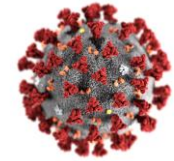
04.02.2020



# Black Swan Events



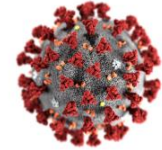
# Coronavirus Timeline



- 12/31/19 - Wuhan China reports first Corona virus cases.
- 01/21/20 - First confirmed case in the U.S. in Washington State.
- 01/23/20 - Wuhan city with 11 million people was cut off by Chinese authorities. 17 had died and 570 infected.
- 01/31/20 - Trump restricts travel from China. 213 had died, 9,800 infected. Russia, Sweden, UK confirm cases.
- 02/10/20 - 908 died, 40,171 infected. Surpasses SARS death toll.
- 02/29/20 - U.S. first death. 87,000 infected worldwide. S. Korea sees highest daily number reported of 813 infected.
- 03/03/20 - Fed cuts rates by .50% to 1.25%
- 03/09/20 - Energy and Financials sectors down 20% & 15% on Saudi's oil production rise and interest rates plunging
- 03/09/20 - Stock market halted after the open on 7% fall, first circuit breakers use since 1997. Ends day down 7.6%.
- 03/12/20 - 118 countries, 4,600 deaths, 126,000 cases. Trump announces beginning of massive assistance.
- 03/12/20 - Fed injects \$1.5t to repo market. Pro sports cancel games. Schools close. Market down 9.5%.
- 03/13/20 - FED grants massive stimulus for banks and liquidity measures to stem panic. Trump declares "National Emergency"
- 03/15/20 - Sunday - USA has 60 deaths & 3,000 confirmed cases. FED cuts rates to 0% in largest move ever with many other moves.
- 03/17/20 - Rumors of \$800b - \$1.2t stimulus package tied up in house/senate. Amazon to hire 100k workers.
- 03/18/20 - Markets halted at open as circuit breakers kick-in. Boeing seeks \$60b in a help from government.
- 03/19/20 - FED safeguards \$3.8 trillion in money markets & \$500 billion in overnight repo market. Senate crafts \$1.2t plan.
- 03/20/20 - CA governor orders all residents to stay home. NY & Illinois follow. FED plans now equal 5% of GDP.
- 03/22/20 - Barron's headline "Market Experts Say the Coronavirus Selloff is 'worse than anything we've seen since 1929'"
- 03/23/20 - FED to exercise open ended treasury MBS buying as needed to solve liquidity crisis.
- 03/23/20 - Fed to purchase Corporate Bond ETF's
- 03/24/20 - 13 states have orders to stay at home. \$2t stimulus plan stalled but market rallies 1,800 points intraday - best since 1933.
- 03/24/20 - Rumors of Gilead's Remdesivir and 65 year old generic malaria drug Chloroquine show success.
- 03/25/20 - FED's Powell "when it comes to lending, we are not going to run out of ammunition"
- 03/26/20 - Unemployment surges to 3.3 million. Market rallies 1,300 points. 82,000 infected with 1,100 deaths in the US.

[Montag Crisis Tracker Live Link](#)

# What matters?



Fed

Sentiment

Valuations

Earnings Expectations

Interest Rates

Key Metrics right now:

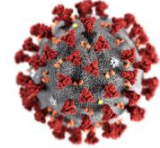
The Data

Medical Response

Mutations

Boomerang


# Phases of a Crisis



**“We’ve seen this before and it is always tough. It rhymes with other crises but isn’t exactly the same. Though human nature changes very little over time, tools and responses change a lot.”**

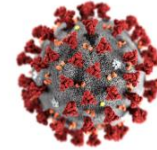
**- Tony Montag**

## Previous Crisis Phases

- 
1. “Black Swan” event occurs – an event not expected and never seen before - dramatic and rapid equity price declines with credit spreads spiking.
  2. Action - consumer behaviors change in travel, grocery, banking.....consumers and leaders evaluate, assess and plan.
  3. FED - Monetary response - central banks step in to prevent systemic problems and contagion from occurring as a result of the problem.
  4. Government intervention – in this case they organize social distancing, closing schools, closing travel and implement medical assistance.
  5. Government fiscal response – Government attempts to prevent panic and create stimulus by spending where it can help the most.
  6. Real impact on company earnings and cash flow hit – investors get their heads around the “new normal” to value all securities.

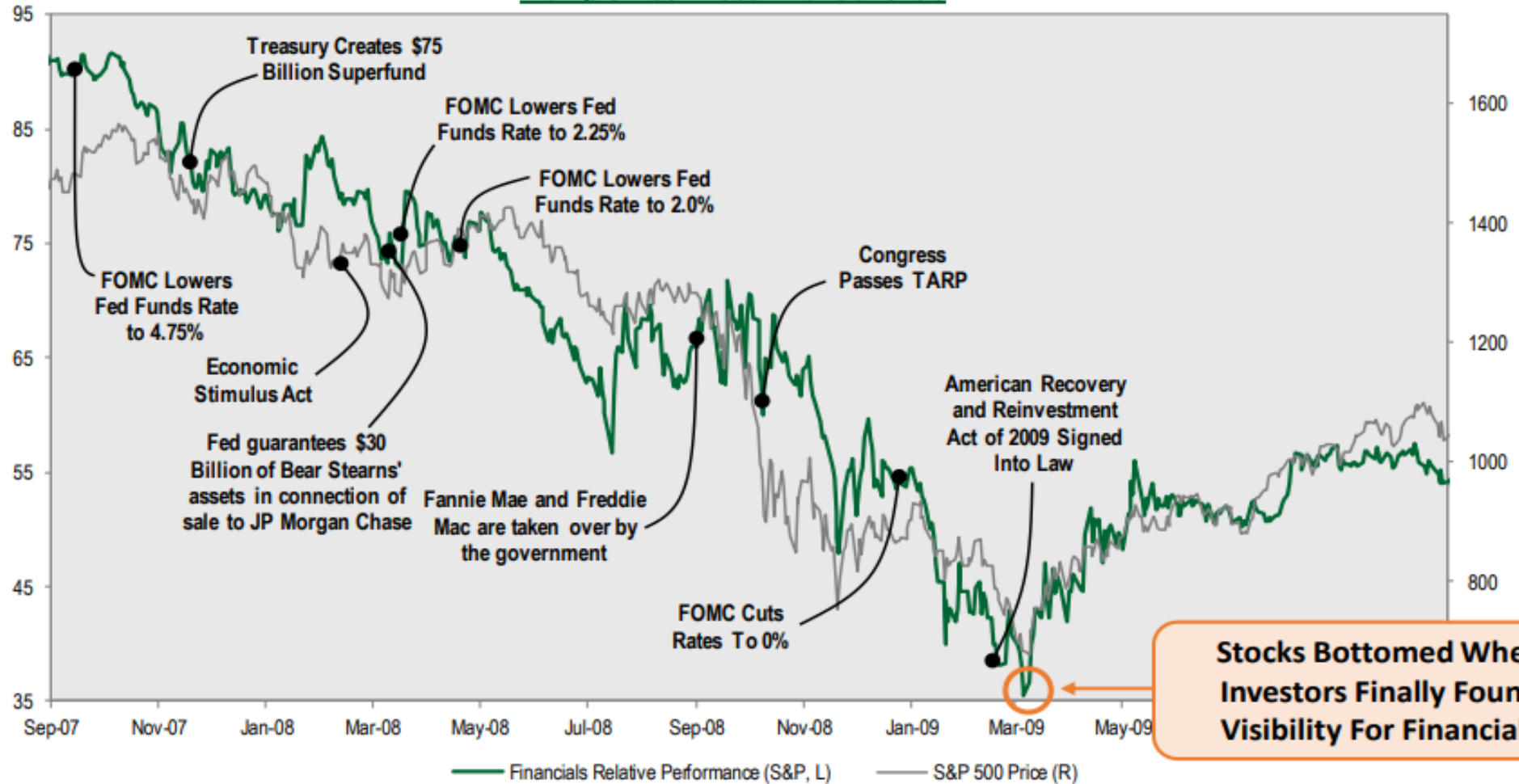
**We are somewhere between #5 and #6. #6 is happening now, volatility is subsiding as securities are priced with more knowns and investors can better take into account the ‘new normalized earnings growth rates’ based on new consumer behaviors.**

# Perspective



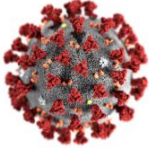
## Markets Do Not Recover Until A Solution To The Problem Is Found

### Example: 2007-2009 Financial Crisis

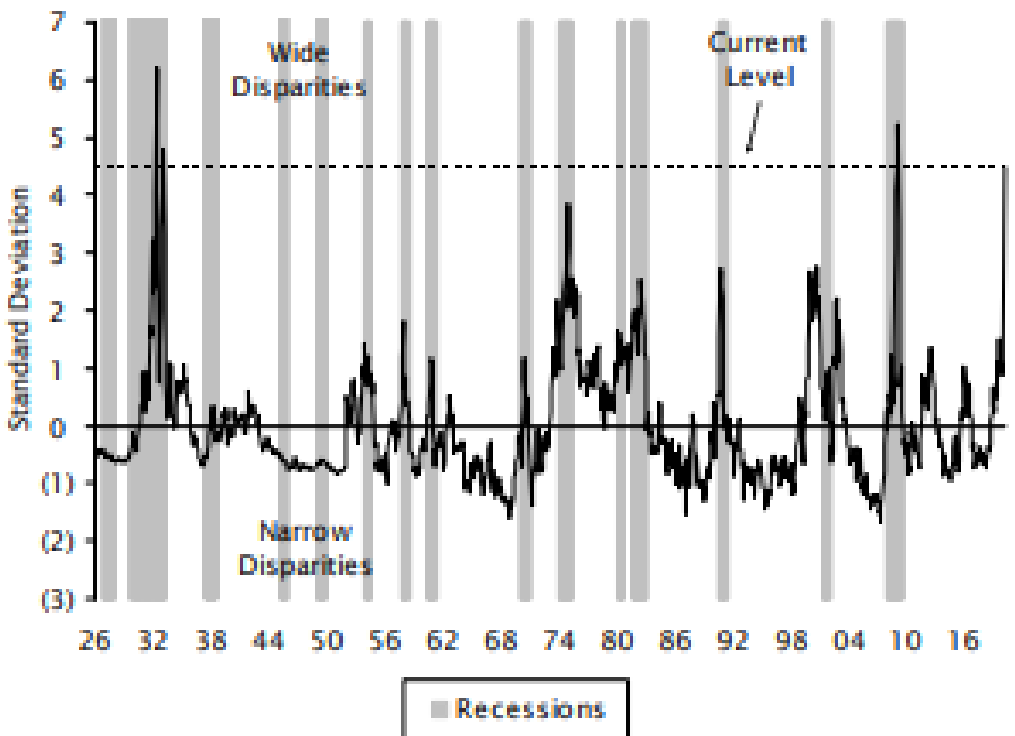




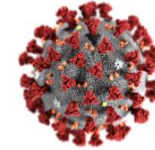
# Perspective



**Exhibit 3: U.S. Large-Capitalization Stocks  
Valuation Spreads<sup>1</sup>  
The Top Quintile Compared to the Average  
1926 Through Mid-March 2020**



# Perspective

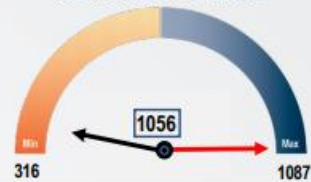


## FIXED INCOME DASHBOARD

### 10 YEAR MINIMUM AND MAXIMUM OPTION ADJUSTED SPREADS (OAS)

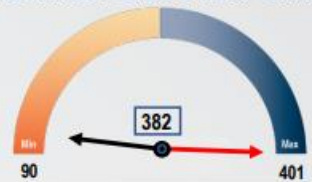
As of 12/31/2019: →  
As of 3/24/2020: →

#### HIGH-YIELD BONDS



10 yr OAS – ICE BofA US High Yield Constrained Index				
Current OAS	1056	High OAS	1087	3/23/2020
Mean OAS	493	Low OAS	316	10/3/2018
Std Dev	122			

#### INVESTMENT GRADE CORPORATES



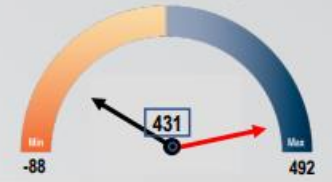
10 yr OAS – ICE BofA US Corporate Index				
Current OAS	382	High OAS	401	3/23/2020
Mean OAS	148	Low OAS	90	2/2/2018
Std Dev	36			

#### MORTGAGE BACKED SECURITIES



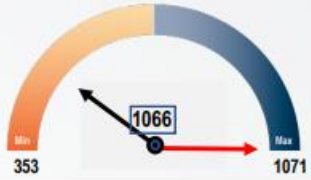
10 yr OAS – ICE BofA US Mortgage Backed Securities Index				
Current OAS	103	High OAS	136	3/19/2020
Mean OAS	35	Low OAS	-40	7/28/2010
Std Dev	18			

#### PREFERRED



10 yr OAS – ICE BofA Fixed Rate Preferred Securities Index				
Current OAS	431	High OAS	492	3/23/2020
Mean OAS	156	Low OAS	-88	12/6/2017
Std Dev	89			

#### SENIOR LOANS



10 yr OAS – S&P/LSTA Leveraged Loan Index				
Current OAS	1066	High OAS	1071	3/23/2020
Mean OAS	478	Low OAS	353	4/20/2018
Std Dev	81			

#### EMERGING MARKETS



10 yr OAS – ICE BofA US Emerging Markets External Sovereign Index				
Current OAS	664	High OAS	693	3/23/2020
Mean OAS	301	Low OAS	205	4/15/2010
Std Dev	47			

#### HIGH-YIELD MUNICIPAL BONDS



10 yr OAS – ICE BofA US Municipal High Yield Securities Index				
Current OAS	193	High OAS	869	5/25/2016
Mean OAS	363	Low OAS	100	3/3/2020
Std Dev	134			

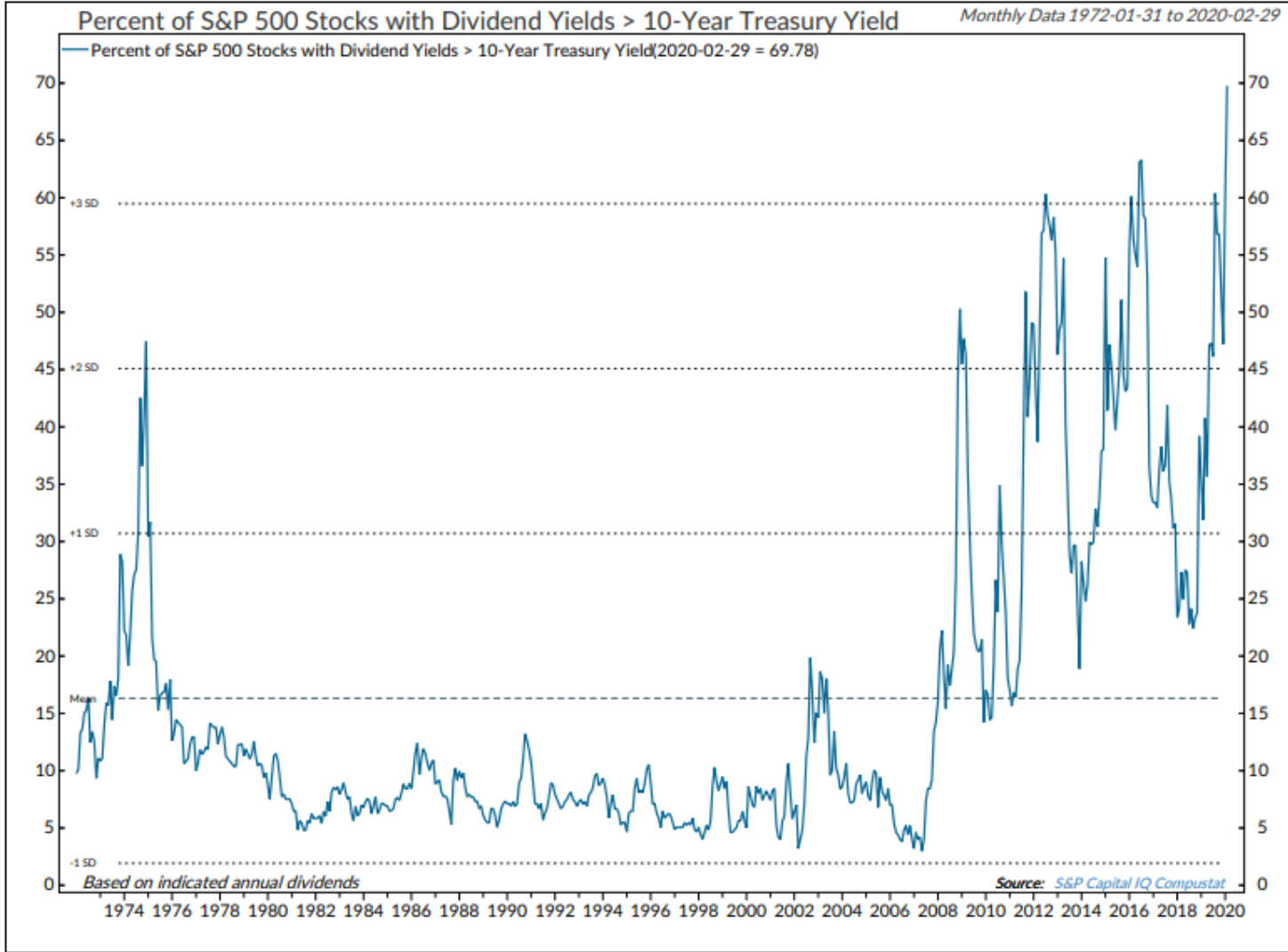
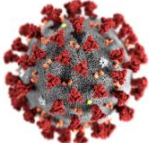
#### INSTITUTIONAL PREFERRED



10 yr OAS – ICE BofA Investment Grade Institutional Capital Securities Index				
Current OAS	440	High OAS	489	10/5/2011
Mean OAS	279	Low OAS	164	2/2/2018
Std Dev	62			

Source: ICE and Standard & Poor's Leveraged Loan Commentary and Data

# Perspective

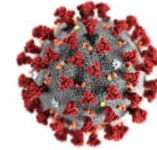


S015



© Copyright 2020 Ned Davis Research, Inc. Further distribution prohibited without prior permission. All Rights Reserved. See NDR Disclaimer at [www.ndr.com/copyright.html](http://www.ndr.com/copyright.html). For data vendor disclaimers refer to [www.ndr.com/vendorinfo/](http://www.ndr.com/vendorinfo/)

# History of Flu Epidemics: S&P 500



## How frequently does the stock market drop more than 20% since 1950?

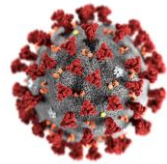
> 20% loss, peak to trough since 1950	duration	peak to trough % return	Why?	Solution	Trough to previous high
1962	6 months	-23%	Coined 'The Kennedy Slide'. After decades of growth following the Great Depression of 1932, a valuation adjustment period occurred through the Cuban Missile Crisis and the Bay of Pigs attack	Kennedy reduced the margin requirement and decided on a tax cut. A stable rise occurred at the end of the Cuban Missile Crisis in October as fear of the unknown subsided.	14 mos.
1968	18 months	-36%	Post Vietnam War economic boom ended. Taxes hiked and Federal spending was cut.		21 mos.
1973	21 months	-48%	Oil prices increased \$15 to \$45 almost overnight during a period of rising unemployment and slowing economy following the Vietnam war. Stagnation after economic expansion mixed with high 10% inflation from OPEC cutting oil supply. Nixon shock and US dollar devaluation.	Tax cuts plus creation of investment credits to stimulate growth and spending combined with Federal deficit spending.	5.7 year
1980	21 months	-27%	Inflation reached 11% in 1980. The Fed lead by Volcker, fought to control it by reducing liquidity with higher interest rates. Prime rates peaked at 21% by mid-1982. Bank/S&L lending was out of control. Very poor S&L oversight or regulation lead to speculative lending and the S&L crisis.	Insolvent S&L's were closed and forced to merge but not allowed to fail and default but significant oversight was added to lending.	3 mos.
1987	4 months	-34%	Black Monday. Inflation running high, strong dollar, valuations high, portfolio insurance - automated stock loss orders triggered a domino effect. At the time, there were no pause button at the exchanges	Greenspan lowered interest rates. Exchanges implemented circuit breakers.	19 mos.
2000	31 months	-49%	Internet bubble. Valuations very high.	Nasdaq down 80% peak to trough...technology revolution restarted from lower base, investors became more rational after severe losses	4.6 year
2007	17 months	-57%	Housing bubble, debt/credit bubble	Globally Feds lowered rates. Most bought bad assets off bank balance sheets to "save the banks" from defaulting. Investors became more rational after severe losses	5.4 year

**Odds of losing >20% since 1950 ~ 7 times in 70 years - 10% of the time**

## How frequently does the stock market drop more than 15% in a calendar year since 1950?

calendar years losses > 15% since 1950	% Return	Why?	Solution
1973	-15%	Oil prices tripled, unemployment rising, stagnation after Vietnam war	Tax cuts + Deficit Spending
1974	-26%	Oil prices tripled, unemployment rising, stagnation after Vietnam war	Tax cuts + Deficit Spending
2000	-22%	Internet bubble. Valuations very high.	Fed cut interest rates
2008	-37%	Housing bubble, debt/credit bubble	Fed cut interest rates

**Number of times the stock market declined more than 15% in a calendar year - 4 in 70 years - 6% of the time**



# Recent volatility

## Duration and Magnitude is unprecedented

### All 20%+ Declines from All-Time Highs in the S&P 500

<u>Date of All Time High</u>	<u>Max Drawdown in Period</u>	<u>Duration of Drawdown (No. Months)</u>	<u>Date of Recovery to Closing High</u>	<u>Duration to Recovery (No. Months)</u>
16-Sep-29	-86.19%	32.29	22-Sep-54	297.57
2-Aug-56	-21.63%	14.62	24-Sep-58	25.71
12-Dec-61	-27.97%	6.43	3-Sep-63	20.67
9-Feb-66	-22.18%	7.95	4-May-67	14.76
29-Nov-68	-36.06%	17.57	6-Mar-72	39.05
11-Jan-73	-48.20%	20.76	17-Jul-80	90.38
28-Nov-80	-27.11%	20.48	3-Nov-82	23.24
25-Aug-87	-33.51%	3.38	26-Jul-89	23.10
24-Mar-00	-49.15%	30.33	30-May-07	85.86
9-Oct-07	-56.78%	16.90	28-Mar-13	65.52
21-Sep-18	-20.21%	3.10	29-Apr-19	7.10
19-Feb-20	-26.95%	0.77	?	?
MEAN	-39.00%	15.80	MEAN	63.00
MEDIAN	-33.51%	16.90	MEDIAN	25.71

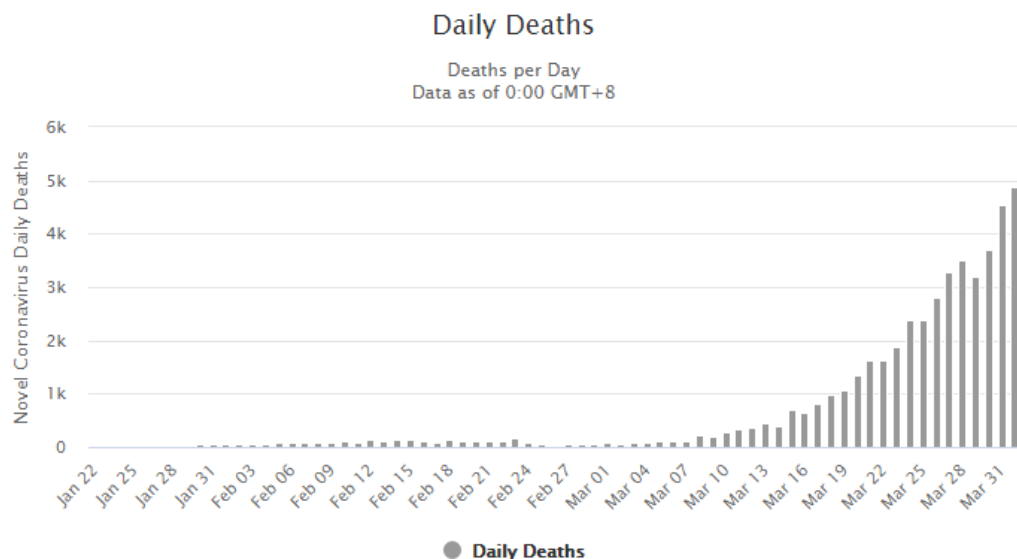
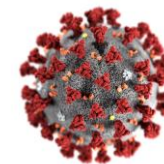


### Performance Of Key Indexes Since Their Bull Market Highs (through March 12, 2020)

<u>U.S. Stock Indexes</u>	<u>Date of High</u>	<u>Pct. Loss</u>
S&P 500	February 19, 2020	-26.7 %
Dow Jones Industrials	February 12, 2020	-28.3
Dow Jones Transports	September 14, 2018	-37.3
Dow Jones Utilities	February 18, 2020	-24.7
NASDAQ 100	February 19, 2020	-25.3
NASDAQ Composite	February 19, 2020	-26.6
NYSE Composite	January 17, 2020	-29.1
NYSE Financials	February 14, 2020	-32.6
Russell 1000 Growth	February 19, 2020	-25.3
Russell 1000 Value	January 17, 2020	-29.7
Russell 2000	August 31, 2018	-35.5
Russell 2000 Growth	February 19, 2020	-32.5
Russell 2000 Value	August 22, 2018	-40.2
Russell Microcap Index	August 31, 2018	-39.8
Russell MidCap	February 20, 2020	-30.0
S&P 1500 Composite	February 19, 2020	-27.2
S&P MidCap 400	February 20, 2020	-32.3
Value Line Arithmetic	January 16, 2020	-35.7
<b><u>S&amp;P 500 Sectors</u></b>		
Communication Services	February 19, 2020	-25.2 %
Consumer Discretionary	February 19, 2020	-26.9
Consumer Staples	February 14, 2020	-19.3
Energy	June 23, 2014	-69.9
Financials	January 2, 2020	-34.8
Health Care	January 22, 2020	-19.2
Industrials	February 12, 2020	-31.7
Information Technology	February 19, 2020	-26.8
Materials	January 26, 2018	-32.3
Real Estate	February 14, 2020	-22.7
Utilities	February 18, 2020	-23.4

© 2020 The Leuthold Group

# The Lines / Data



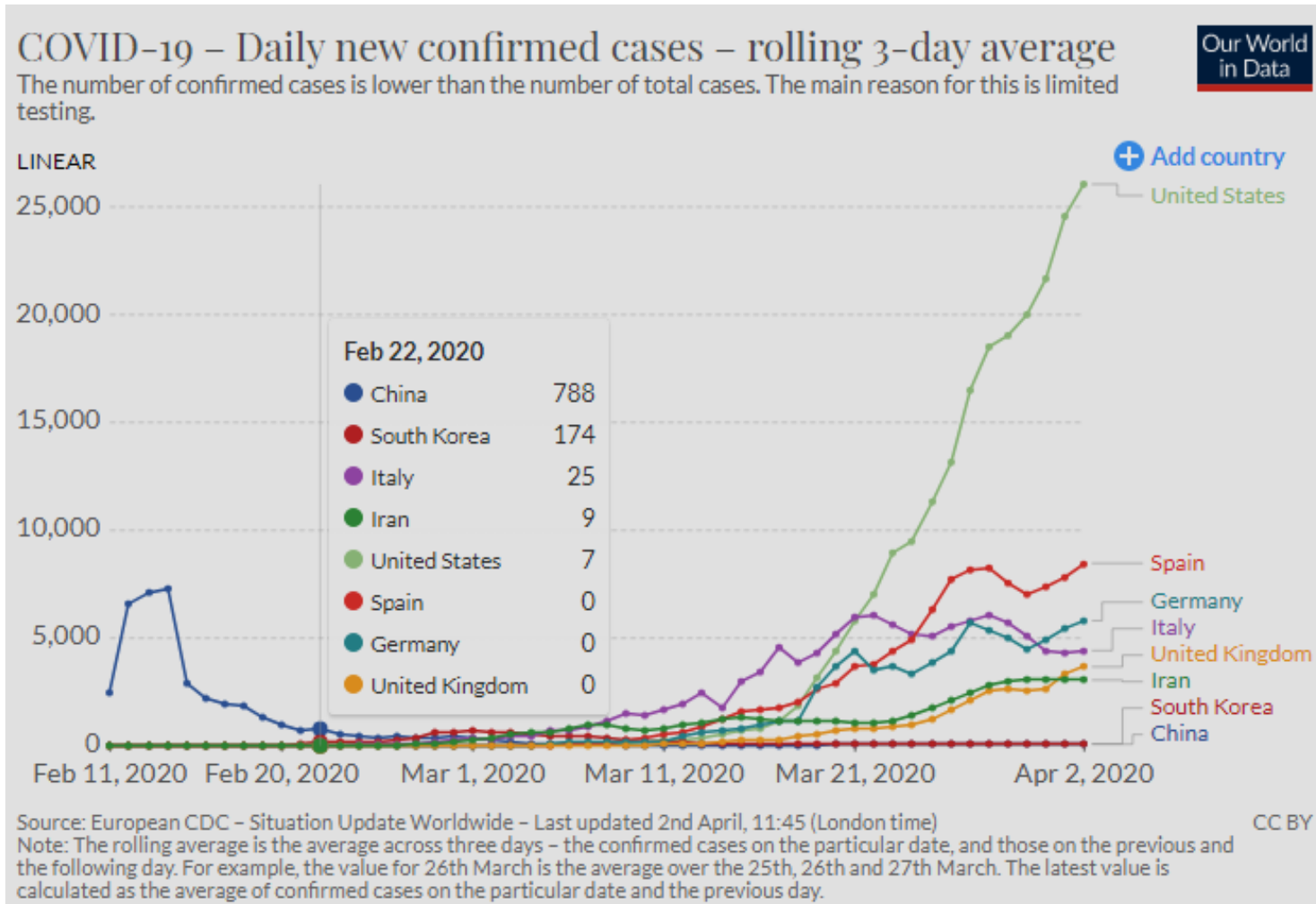
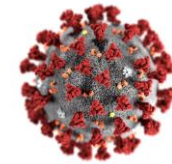
Misleading Illustrations

	23-Mar	24-Mar	25-Mar	26-Mar	27-Mar	28-Mar	29-Mar	30-Mar	31-Mar	1-Apr	2-Apr
<b>US New Cases</b>	10,189	11,075	13,355	17,224	18,691	19,452	19,913	20,353	24,742	26,473	
<b>% day to day</b>	8%	9%	21%	29%	9%	4%	2%	2%	22%	7%	
<b>US Daily Deaths</b>	141	225	247	268	401	525	488	573	912	1049	
<b>% day to day</b>	25%	60%	10%	9%	50%	31%	-7%	17%	59%	15%	
<b>New York New Cases</b>	5,707	4,790	5,148	6,447	7,377	7,683	7,195	6,984	9,298	7,917	
<b>% day to day</b>	19%	-16%	7%	25%	14%	4%	-6%	-3%	33%	-15%	
<b>New York Deaths</b>	114	96	75	100	134	209	237	253	332	391	
<b>% day to day</b>	63%	-16%	-22%	33%	34%	56%	13%	7%	31%	18%	
<b>World New Cases</b>	41,371	43,744	48,461	60,830	64,501	66,716	60,263	61,348	73,617	76,863	
<b>% day to day</b>	27%	6%	11%	26%	6%	3%	-10%	2%	20%	4%	
<b>World Daily Deaths</b>	1,873	2,381	2,388	2,791	3,271	3,517	3,203	3,708	4,535	4,883	
<b>% day to day</b>	15%	27%	0%	17%	17%	8%	-9%	16%	22%	8%	

Percentages Matter

<https://www.worldometers.info/coronavirus/coronavirus-cases/>

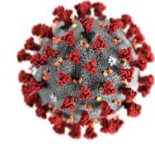
# The Lines / Data



<https://ourworldindata.org/coronavirus#the-growth-rate-of-covid-19-deaths>

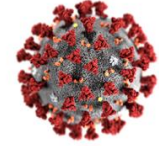


# Coronavirus Observations



- **The FED** – nuclear bomb
- **Investor fear** – 1<sup>st</sup> percentile
- **Sentiment** - terrible
- **Solutions** - 30 drug companies
- **Expectations** – very low now
- **Perspective** – use it
- **Goldman Sachs** “This feels more like a 9/11 crisis than a systemic problem like in 2008 or 2000”
- **RBC Capital** “The market action the last 5 days reminds us of the worst days of the financial crisis, near the lows in 2008”
- **Roadmap** – Use China, Korea and Italy as a roadmap of what to expect
- **MONTAG** - The behavioral consumer changes we are seeing in the U.S., as a result of observing China, Korea and Italy, are very significant and will very likely flatten the infection curve and produce much lower infected numbers than most of the predictions of early March. Social distancing is well underway with seemingly ‘everything’ being cancelled and stopped.

# Remember this....



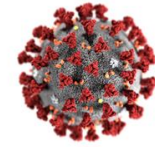
S&P 500 drops from 3,400 to 2,250 = -34%

S&P 500 rises from 2,250 to 3,400 = +51%

S&P 500 drops from 1,500 to 750 = -50%

S&P 500 rises from 750 to 1,500 = +100%

# Opportunities / Risks



***“THERE ARE DECADES WHERE NOTHING HAPPENS;  
AND THERE ARE WEEKS WHERE DECADES HAPPEN”***

**Industries receiving a positive impact to revenues immediately. These industries have outperformed since the outbreak, and are now considered much riskier since their prices reflect a continuation of the positive impact due to the behavior changes....that may not continue after several more weeks.**

Cloud computing, Staples, Certain Healthcare companies, Video conferencing, Video games, Video streamers.

**Industries with a significant negative impact to revenues immediately. These industries have been beaten down significantly already and likely represent a good opportunity for intermediate to long term investors when the economy ‘normalizes’.**

Cruise Lines, Restaurants, Airlines, Hotels, Banks, Energy.

**Industries with a material indirect negative impact to revenues. These industries have sold off significantly as well despite not being directly impacted by behavior changes. There is opportunity within these industries for investors should the economy ‘normalize’ as we expect.**

Materials and commodity companies, home builders and related, Insurance, Asset Managers, Brokers, Consumer related, Service related.

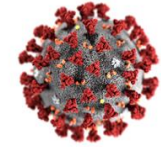
**Beneficiaries of a flight to safety – securities most impacted. These securities and industries have benefitted already and likely will underperform should the economy ‘normalize’ as investors tend to sell out of safety and into securities with more growth and/or risk.**

U.S. Treasury bonds, staples stocks, gold, Mega Cap companies, food stocks, companies with high recurring non-cyclical tied revenues.

**In the event of a resumption of economic activity back to ‘normal’ these securities and sectors would be expected to generate the highest investment returns.**

All those listed as Significantly and Materially impacted above could move higher first, High Yield Bonds and Preferred stocks may outperform their safer brethren U.S. Treasuries significantly.

# Risks have changed



**Direct beneficiaries of Crisis** – WMT, CLX, TDOC, ZM, Healthcare, Staples, US Treasuries, Gold, Large Caps, Technology, Video Games

These have held up well, they may be at risk IF we ‘normalize’

*1/3 here?*

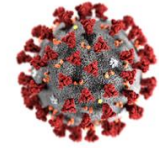
**Harmed most by the Crisis** – Cruise Lines, Airlines and related, Hotels, Restaurants, Home builders, Insurance, Leveraged Companies, HY Bonds

These have fallen sharply and may have significant upside IF we ‘normalize’ quickly

*2/3 here?*

<u>04/01/20</u>		<u>02/28/20</u>
<i>High Risk</i>	Energy stocks	<i>High Risk</i>
<i>High Risk</i>	Credit Financials	
	Utilities / Staples / Real Estate	
	Technology	
<i>High Risk</i>	Consumer	
	Emerging Markets / Developed Markets	
<i>High Risk</i>	Private Equity	<i>High Risk</i>
<i>High Risk</i>	Gold	
<i>High Risk</i>	Commodities	

# Final Points



“Every stitch of the world...every doctor, every politician, every business, every scientist and every central bank in the world is bearing down on this problem, there is 0% chance it doesn't get solved.”

## Final Points...

What are others like me doing?

What does Buffett do in every crisis?

If I'm already invested in stocks, what can I do?

Earnings are 0, focus on the long term and evaluate using 'normalized' behaviors and earnings.

Action item #1 - Partition your portfolio into two parts - 1 for safety, 1 for long term appreciation

Action item #2 - Create a plan for all scenarios.

Action item #3 - Breakdown your equities into risk buckets.

Action item #4 - Know what key metrics you are watching.

# MONTAG Wealth Management

## At MONTAG:

We invest along side of our clients, we treasure and are devoted to them, always do our best to help them and plan to grow old with them.

We have many decades of combined experience anchoring us in times like these, and always. We have playbooks for every market ready to go.

We are hands on with our clients, have no relationship manager or salesperson in the middle, so clients always get direct access to PM's.

We have no pre-existing products or plans... We customize portfolios to fit any objective ranging from conservation to growth.

We diversify, but we don't own all asset classes all the time, we own them when it makes sense, when there's an opportunity.

We believe that our fees reflect the fact that we invest directly in stocks and bonds and make decisions ourselves internally.

# Thank you

## **MONTAG Wealth Management**

133 Peachtree Street NE

Suite 2500

Atlanta, GA 30303

404.522.5774

[montagwealth.com](http://montagwealth.com)

### **Steve Whittington, CFA**

*Director of Business Development*

[stevewhittington@montagwealth.com](mailto:stevewhittington@montagwealth.com)

678.539.8245

### **Larry Mendel**

*VP of Sales*

[larrymendel@montagwealth.com](mailto:larrymendel@montagwealth.com)

678.539.8237