MONTAG

Viewpoints

FIRST QUARTER 2020

"Oh, honey, look, this tree is flowering. It's so beauti— never mind, it's shedding now."

Teresa Burns Parkhurst/The New Yorker Collection—Used by permission

Inside This Issue

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MARCH MADNESS, OF ANOTHER KIND — *Ned Montag and John Montag*

Mid-March, with the frightening threat of the coronavirus, brought the legendary long-time bull market to a halt with as much volatility as any bear market in the last century. Talk about March Madness. Open panic in our markets and other pressing issues brought our President to action. Recognizing the seriousness of the problem, the Federal Reserve pulled out its playbook, developed in the crisis of 2008-09. While on March 3rd, interest rates had been meaningfully cut, this time, among several actions it took, the Fed injected $1.5 trillion into the market for repurchase agreements to keep banks running smoothly. Chaos then moved into the bond market, but the Fed offered assuring messages there too, to anchor investors. All of this in less than two weeks. A colleague shared this quote on March 16: *There are decades where nothing happens; and there are weeks where decades happen*. *- Vladimir Lenin*

We have been through this before and recognize we will go through it again. Capital markets are highly efficient but can be very messy. Falling markets cause great emotion and tension, especially for investors trying to keep promises made imprudently. That is not the case at MONTAG. In our nearly 25 years of working together, as brothers and business partners, we are guided by generations of wisdom, earned and paid for, and have ridden markets from one end of the value spectrum to the other, and back again. Here we are again, spring 2020, on another ride.

Like our grandfather Louis and father Tony before us, the building of trust has long been our focus. Louis Montag was known to have a favorite quip: *The money vein runs through the heart*. This point is critical in our work. It is an every-day effort to build trust with fellow team members and with each client. There is no choice in this, not for the long-term investor. And this path we are on today, as we write this, is the path we are always on, where trust matters ahead of any other facet of the relationship. It is not enough to be equipped to manage money. It is not enough to communicate clearly and directly. One must recognize every step is a step toward building trust, so that we and our clients may continue to work together uninterrupted when the most turbulent of times arrive. And arrive they do.

While we never would have envisioned the need to work from home, each member of our firm is equipped to complete their work from home. MONTAG finds itself in the third week of our work-from-home experience. We have had very few mishaps and, in every case, corrected the ones that surfaced. While communication has become reliant on technology alone, we are here for you, and we are ready.

By now, you may know that our firm has created and maintained an excellent information resource named the Coronavirus Crisis Tracker. You will find it on our website, under the section titled Resources. Be sure to visit and see what we have gleaned from each day's news to update this sophisticated timeline. Perspective always matters. That's the purpose of the Tracker.

Continued on page 2

Continued from page 1

In conclusion, we remind you that that the U.S. financial system is the strongest in the world. It is well capitalized and better prepared for problems like this than ever before. While no one knows how this virus evolves or when turbulent markets may settle down, we rely on history to give us confidence. America has survived national crises of all types in her gloried history. We will overcome this one with the same courage and confidence as ever. And as our nation addresses this pandemic and other serious concerns, please know that our investment markets will rebound over the intermediate and long-term, just as they have following many other crises and economically turbulent periods in our great nation's history.

Finally, please don't hesitate to contact either of us directly or your Portfolio Manager at any time. Our direct lines are listed below. Thanks for your trust and for your patronage.

Ned Montag
678.539.8217

John Montag
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We wish you, your family, your colleagues and friends the best of health and welfare

DID YOU KNOW?

"Nature's first green is gold,
Her hardest hue to hold.

Her early leaf's a flower;
but only so an hour."

These are the opening lines of a poem by what American poet?

A. Maya Angelou

B. Robert Frost

C. Emily Dickinson

D. Walt Whitman

(Answer on Page 4)

MARKET OBSERVATIONS — *Steve Whittington, CFA*

There's really no way to mince words about what happened in the first quarter of 2020. After drifting marginally sideways for the first month, the news about the coronavirus, or COVID-19 first became more prevalent, then more dire. With the touchdown in the United States and the reality that there will be a "new normal" for citizens in the immediate future, our long running bull market finally ended with fear returning in force, forcing markets down sharply. Even with a month end mini-rally for several days, for the quarter (and the year), the S&P 500 index was down 20.0%, the Dow Jones Industrial Average was down 23.2%, and the NASDAQ was down 14.8%, respectively.

The resulting volatility has not only whipsawed stocks, but the bond markets as well. When there is fear in the stock market, cash flows into the bond market, and that creates a robust demand but it drives yields down. Because a bond coupon, divided by a bond price (with the bond price increasing because of demand), means yields decrease. And with the Federal Reserve Bank coming out with two quickly announced rate cuts, in short, the bond market, meaning treasuries, municipal bonds and corporate bonds, face headwinds.

The subsequent deterioration of the markets have put us into and out of a bear market for the first time in twelve years (we are straddling that demarcation now), and at the writing of this letter, markets have suffered several of the worst single-day and week-long downdrafts since the financial crisis of 2008. There is not a lot of good news for what happened this quarter, but we do feel that this is not the end of our entire financial system or way of life. Yes, Americans have a new normal to grapple with, but supply chains have not been broken through this; people can still get supplies. The federal government has produced an historic fiscal stimulus that will blunt the economic blow of this virus and provide significant tailwinds once we move beyond the most acute phases of this crisis. And finally as my colleague Chris Guinther likes to point out, we invest in the best, largest, most well run and most well capitalized companies in the world. Again, as Chris says "size and scale wins."

So while this section of the letter is backward looking in nature, we encourage you to read our Around the Research Table section to see what our forward looking sentiment is. M

Steve Whittington, CFA is Business Development Director

These are the best companies in the world…

Size and scale wins.

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.

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AROUND THE RESEARCH TABLE

⇒ We are buying a "BUSINESS" and a solid business should grow and give good long-term returns.

⇒ Size and Scale Win! Quality of the companies we own or want to own, should win again and take market share.

⇒ Focusing on rotating from assets considered safe to buying quality companies that can outgrow the companies we may currently own. The smart companies will strengthen themselves and their balance sheets.

⇒ Portfolios are balanced for a reason, as markets have crises and corrections within most 10 year periods.

⇒ Fed shot a bazooka of stimulative actions, which will impact and stick around and have positive effects after the crisis has mitigated.

⇒ Continue to utilize indictors to help shift asset classes in phases and not try to time the market bottom. Do not move too far off allocation but prepare for buying opportunities.

⇒ Continue to differentiate ourselves, actually owning individual companies vs. the index funds. Markets like this are why we own individual companies.

⇒ Since we buy individual bonds, the pricing on the statements will change, but the bonds will pay in full when they mature and so are not a personal loss. ETF's and Funds are a different story.

Lifecycle of Previous Economic Crises:

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.

We're here

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. M

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HOW TO PROTECT YOURSELF AND YOUR FAMILY: A Checklist for Financial Health—*Patricia Thompson, Esq.*

How many times have we been told to have a healthy body all it takes is, “to eat right and exercise?” As we all know that is much easier said than done. Happily, the advice for basic financial health, “be informed, be involved and know your professionals” is almost as easily done as said.

Before getting to “what to do,” understanding the motivation of “why to do” is important. In most families (which include couples, elderly parent(s) with adult children, siblings whose parents have died, etc.) there is typically one person who knows all of the ins and outs of the family’s financial affairs, including the location of assets, passwords, professionals, insurance information (life, auto, homeowners, liability), mortgages, and the list goes on. Other family members have little or no knowledge of these things. This puts the financial health of the entire family at unnecessary risk if the “family CEO” dies, becomes incapacitated (stroke, dementia, other debilitating health problems), there is a divorce, or a falling out among siblings. It takes a great deal of effort to gather and understand the family financial information after the fact. Most family CEO’s do not have all the records organized for someone else to take over the job without some guidance.

Now you know the “why to do.” The question then is, “what do I do?” Again, the objective is to be prepared to step into the CEO’s spot with less effort and stress by being informed and involved at a basic level, not to suggest that you begin studying for an MBA or business degree in preparation. Ten straightforward steps to take:

1. Talk to your family CEO. Explain the “why.” Often this is a relief to the CEO because sharing knowledge will protect the family. Discuss the ways in which you can become informed and involved.

2. Know your professionals-lawyer, accountant, financial advisor(s), insurance broker, banker. Not just their names and contact information. Try to meet each of the professionals face to face. Make sure you are comfortable with the professionals. If the CEO likes the lawyer, for example, and you do not, this is the time to do something about it.

3. Learn where all the assets are held and titled. This includes knowing how many accounts and who manages, account numbers, location of the deeds, retirement accounts, etc. Know where to find the passwords to all accounts.

4. Understand the debt on the assets, including home mortgages, lines of credit (HELOC on your home; margin account on brokerage accounts). Check your family’s credit report and make sure it is accurate.

5. Understand the insurance your family has, including the type (life, auto, homeowners, and liability insurance) and amounts.

6. Understand your family’s monthly cash flow and expenses so you can have an idea of how much it costs to run your home and lifestyle. Learn whether there is a “rainy day fund” to support your lifestyle in case of emergency.

7. Review your income tax returns; do not just sign them.

8. Have a credit card in the name of someone other than the CEO or a card linked with the CEO’s credit card.

9. Review your estate planning. Are there up to date Wills, Advance Directives for Health Care, and powers of attorney in place?

10. And finally, eat right and exercise. My doctor tells me that is the key to everything.

Patricia M. Thompson, Esq. of Djuric Spratt has over 30 years’ experience in the field of Trusts and Estates

> *The advice for basic financial health is “be informed, be involved and know your professionals”*

DID YOU KNOW? *(from page 2)*

Answer: B.

Written by poet Robert Frost in 1923, *“Nothing Gold Can Stay”* was published in The Yale Review. The poem lapsed into the public domain last year, in 2019.

Nothing Gold Can Stay

Nature’s first green is gold,
Her hardest hue to hold.
Her early leaf’s a flower;
But only so an hour.
Then leaf subsides to leaf.
So Eden sank to grief,
So dawn goes down to day.
Nothing gold can stay.

A PARTING THOUGHT

“Your mind is a garden. Your thoughts are the seeds. You can grow flowers or you can grow weeds.”

- www.mycupof cocoa.com