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Dear Friends,

Typically we refrain from commenting on short-term moves in financial markets. We don't like to lend credibility to bumps in the road and, frankly, Big Media is much better at the panic first, think about it later style of communication.

At Apollo our preference is to remain objective and dispassionate. Obtain information from credible sources, analyze then incorporate into a larger, existing framework when appropriate.

Two important points:

1. Incorporation is a choice not a requirement. We don't believe in action for the sake of such.

2. Credible sources vary depending upon the situation. The CDC is a great example of a credible source during our current health-related situation. Sources that are <u>not</u> credible include (but are not limited to) CBS, ABC, NBC, MSNBC, CNBC, FOX, Fox News, Fox Business News, Twitter, Facebook, Instagram, YouTube, family, friends, coworkers, neighbors, bloggers, vloggers, people on your group text chain, people in your fantasy football league, people at Costco fighting over toilet paper, etc. None of these outlets has factual, unbiased information. None of these outlets has an interest aligned with yours. Trust at your own risk.

Furthermore we like to let time pass so the noise can settle. Our thoughts would only get lost in the sea of "experts." Speaking of experts how does one become a COVID-19 expert when it's a novel virus? I can imagine being on the ground in Japan in 1945. "Mr. Haber, you're an expert about nuclear bombs. How long until Hiroshima recovers?" I envision my answer being something like, "Are you out of your _______ mind? The world didn't know what a nuclear bomb was until about 10 seconds ago. How am I an expert? What the ___ is wrong with you?"

Incredulity aside we think it's time for a few words about what is happening, why (or so goes our in-house working theory) and what, if anything, is actionable as a result.

It's a three-pronged approach – the economy, financial markets and investment strategy. That last point is important only to the extent it's a subset of a holistic financial plan accounting for estate planning, income taxes, cash flow, insurance, etc.

(1) THE ECONOMY

The rapid and attempts to contain the further spread of COVID-19 has severely curtailed business activity. Dislocations exist across almost every aspect of production, supply, distribution, wholesale, retail, commercial, consumer, labor and capital. Some of these dislocations are temporary. Some will permanently alter the landscape. The future is unborn.

(2) THE FINANCIAL MARKETS

It's important to note the prices of assets such as stocks and bonds are derivatives. In the short term they reflect sentiment. In the long term they reflect the discounted value of revenue net of expenses.

The father of value investing Benjamin Graham once quipped, "In the short run the market is a voting machine but in the long run it is a weighing machine."

The long run is the easy part. Imagine you're a big company. Pick your favorite. I'll choose P&G.

I'll sell 100 tubes of Crest at $1/tube. My revenue is $100. My cost of production is $80 yielding a profit of $20. If my sales remain static I'll take in a net revenue stream of $20 in 2020, 2021, 2022, 2023…

Of course $20 this year isn't the same as $20 next year. That's where time value of money comes into play. At a 10% discount rate $20 in 2021 is a present or 2020 value of $18.18. Why? If I had $18.18 today that I invested at 10% it would be worth $20 in one year. Math is fun!

That's $20 in 2020 plus a PV of $18.18 and so forth as I add each year together. Once I have my total PV I divide it by the number of shares outstanding at that is the "right" price of P&G stock. That's in the long run.

In the short run it's anyone's guess. What if there's a run on toothpaste? What if people start buying store brands? What if the sun doesn't rise in the east and set in the west? What if…? Whatever scenario people can imagine it will change the way they perceive the "right" price of P&G stock and it will trade for more or less than it "should."

Why the math lesson? Because it goes a long way to explaining the current state of financial markets.

NO ONE has done the math. No one. Who has time? No one knows how many tubes of Crest P&G will sell because no one knows what the future will look like. No one knows the depth or duration of the economic impact of COVID-19. There is no "right" price of P&G stock in the long run because no one knows what it is. Anyone who claims to know is intellectually dishonest at best and a damn liar at worst.

So what happens in the short run? Uncertainty. With uncertainty comes fear and the desire to act in order to delude ourselves into thinking we have control. Sell now. Down the road we can worry about what the future will look like.

Does this sound logical? Of course not. Illogical thinking leads to illogical action.

Fine. But prices are still going down. Someone is selling. Let's look at who is:

1. Speculators. Momentum players buy simply because prices are going up. Conversely they sell simply because prices are going down. The more prices go down the more they sell. Leveraged participants are forced to sell. Borrowing at cheap rates to enhance returns only works when the underlying collateral is stable or rising. When the prices of

stocks and bonds on deposit as collateral for loans decline selling to raise cash is a necessity. Selling begets selling.

2. Indexers. They're speculators too even though they won't admit it. Capturing 100% of an index return on the upside also means accepting 100% of the loss on the downside. To avoid losses they sell. It's market timing and it never works. Never.

3. Institutions. Most money managers are compensated based upon performance relative to peers. When peers are selling it isn't easy to have conviction and hold on during uncertain times. No one wants to look stupid – certainly not when compensation is based upon such.

4. Newbies. These are the folks who began putting money to work in/after 2009. They've seen an almost straight line up. A fivefold increase in the value of stocks. They believe not only that markets go in one direction but in leaps and bounds. They don't understand down markets such as the approximate 38% decline in the S&P 500 in 2008. As the saying goes, "You can't teach experience."

5. Nervous Nellies. They need no explanation. They will, however, try to disguise their emotional decisions with quasi-logical and plausible-sounding "evidence."

The list of sellers goes on and on. Notice who isn't included in the list. Experienced, diversified and dispassionate investors. Hmmm…

Finally at the risk of belaboring the point if there's any greater indicator that emotion and perception are driving short-term prices consider today's 2,000+ advance in the Dow Jones Industrial Average. It had nothing to do with underlying long-term economic fundamentals and everything to do with the hope of Congressional legislation.

Is this the type of environment where numbers can be trusted? Does the level of the S&P 500 tell us anything real?

(3) INVESTMENT STRATEGY (in context of all-encompassing financial planning)

Yeah, OK, but "the market" is going down and "they" say it's going to continue. My 401(k) is down x%. Who cares about all this economic mumbo jumbo? Just tell me if this is the buying opportunity of a generation. (When someone asked that I couldn't help but laugh. Not at the person but at the sentiment. Buying opportunity of a generation? The dot-com bubble, the housing crash, the credit crisis, Brexit, Greek banks, Trump's election, Trump's impeachment, Trump's non-impeachment – these were all supposed to sink the markets (depending upon your favorite "expert") and were all the buying opportunity of a generation (depending upon your favorite "expert") and yet all of these occurred within the last 20 years. That's a really short generation!)

We can't say this is or isn't the buying opportunity of a lifetime. Our crystal ball isn't so clear. We can say that the current and post-COVID-19 world is but a blip on the radar screen.

How so? Because no matter the details the tried and true three-pronged cash/bond/stock investment approach works.

We hold cash for liquidity and times of uncertainty. In up markets it's a drag on returns. In down markets it provides a safety net and a hedge against panic selling to pay bills.

We hold bonds because they temper the volatility of portfolios and provide income. They provide higher returns than cash but lower returns than stocks. They are riskier than cash but less risky than stocks. They are a drag on returns when stock prices are rising. They support the portfolio when stock prices are falling.

We own stocks because in the long run they provide the inflation-beating rate of return needed to achieve financial security. They are wonderful in up markets and lousy in down markets. They are a drag on returns when prices are down and the driver of returns when prices are up.

All asset classes are doing in the current environment what they are designed to do. Each component plays a role. Not every asset class needs to be the star. They don't need to appear in every scene. It can still be an entertaining movie. Donald Sutherland was on screen for 10 minutes in Oliver Stone's JFK and it was amazing.

Still need proof this is an emotional story? To hell with the proverbial. To hell with guessing. Let's say this is the buying opportunity of a lifetime. Do you have the conviction to buy into a falling market? Classroom theory tells us to buy. If we were happy with our cash to bond to stock ratio before any selloff then we ought to be buying because the stock portion of our portfolio is now underweighted as a percentage of the total.

If people aren't prepared to buy then what good is an inflammatory and provocative "this is the buying opportunity of a lifetime" comment? Information is only as good as it is actionable. Vegans don't care if Whole Foods lowers the price of ground beef.

We never want to make light of serious situations. People are sick. People are losing jobs. People are going to be hurting financially. We feel for these people.

Nonetheless we cannot allow emotion and the short-term to be a distraction. At Apollo we partner with clients to construct logical, holistic financial plans that go far beyond the most obvious component of investing. We adhere to the plans. It's a trust we are flattered and humbled to receive. We take it incredibly seriously.

We hope that everyone stays safe. Take the necessary precautions. For the physical we should all wash hands, practice social distancing, etc. From an emotional standpoint it's turning off the TV and ignoring the talking heads.

We will all stay sane. We will all get through this together. We will come out of this on the other side.

In the interim we'll all do our best to maintain some sense of normalcy. Personally my favorite and most effective weapons are humor and perspective. I hope to have provided a bit of both.

It can't be said enough. On behalf of the entire Apollo team I am appreciative of the opportunity to be a prudent steward of your financial affairs. Many thanks (or Mahalo Nui as we say in Hawai'i).

Howard