

## DVI Update

DVI fully transitioned to a work from home environment on March 20th with only a skeleton crew staffing our Central Illinois and Central Florida offices. In each of these locations there are statewide shelter-in-place executive orders through the end of April. We continue to expand bandwidth and system redundancy for video and tele-conferencing as it has become mission critical for both internal collaboration as well meaningful client interactions.

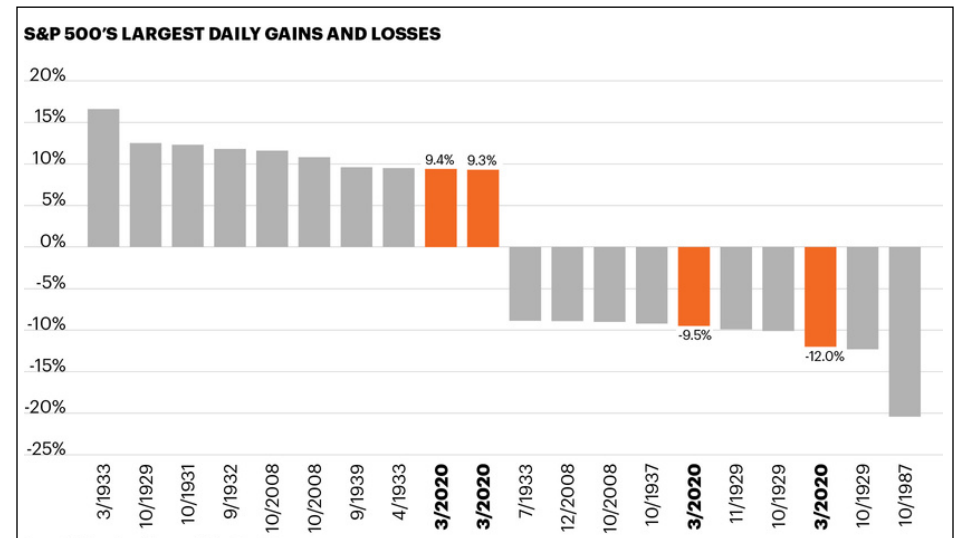
For the time being, we have elected to clear the deck of business as usual tasks and focus our team's efforts on a short list of priorities:

- The safety of our colleagues and their families is our top priority
- Despite current extraordinary circumstances, strive to meet the highest standards of client service
- Maintain an intense focus on investment strategy & portfolio management to maximize current opportunities
- Introduce thoughtful tax and strategic planning concepts to take advantage of the market and economic disruption
- Commit to frequent communication updates to share recent developments and our latest insights

Jamie Dimon, in the recently released 2019 JP Morgan annual report talks of his fervent hope for America. "I am hoping that civility, humanity, empathy and the goal of improving America will break through." He is not alone in embracing this future state despite the near-term challenges caused by the COVID-19 pandemic. We pray you and your loved ones are safe and well.

## Market Insights

Last year we mentioned that there was a gap between perception and reality on the topic of market volatility. The rise and fall of the Dow Industrials in increments of 250 points was viewed at the time by the financial press as extreme volatility when it represented less than (+/-) a one percent change in the market. Well, the reality of market volatility has re-emerged in recent weeks in historic proportions. Four of the largest daily percentage gains and losses in the market since 1926 have been recorded in the month of March. So, if you feel like the market has gone haywire – you are right, it has.



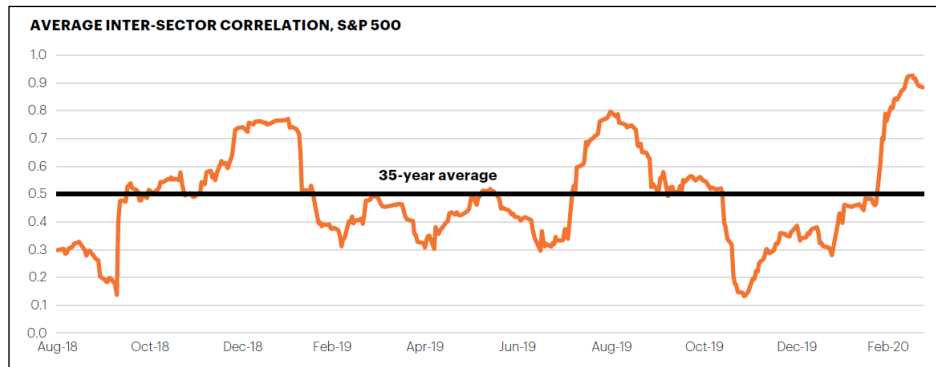
Source: FS Investments, S&P Dow Jones Indices

### Liquidation Sell-Off

As we walk through our internal review of capital market results for the first quarter, early indications point to market behavior and outcomes that were heavily influenced by panic driven liquidation. There were very few asset classes that survived the quarter in positive territory

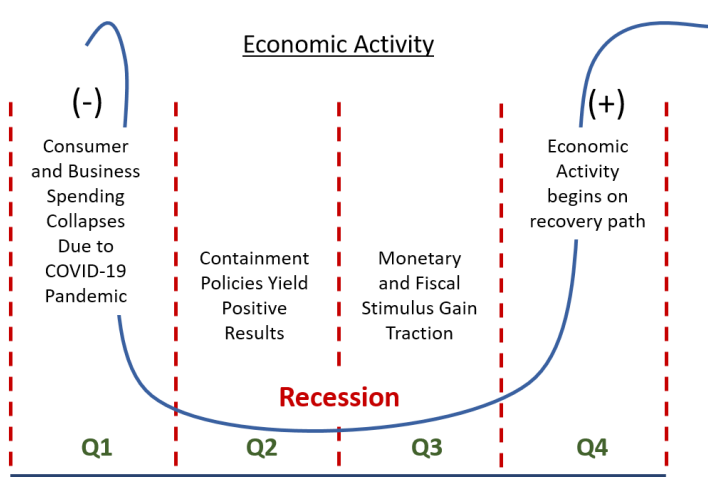
## Market Insights Continued

other than U.S. Treasury securities. Investment grade fixed income and exchange traded funds, traditionally safe havens during equity market turmoil, were not left unscathed. There was such a rapid de-leveraging of risk and demand for cash liquidity that anything that could be sold, was sold, despite the underlying fundamentals.



Source: FS Investments

This phenomenon played out in the equity market as well. Traditionally during bear market declines, non-cyclical sectors such as utilities significantly outperform on a relative basis. In the month of March, all

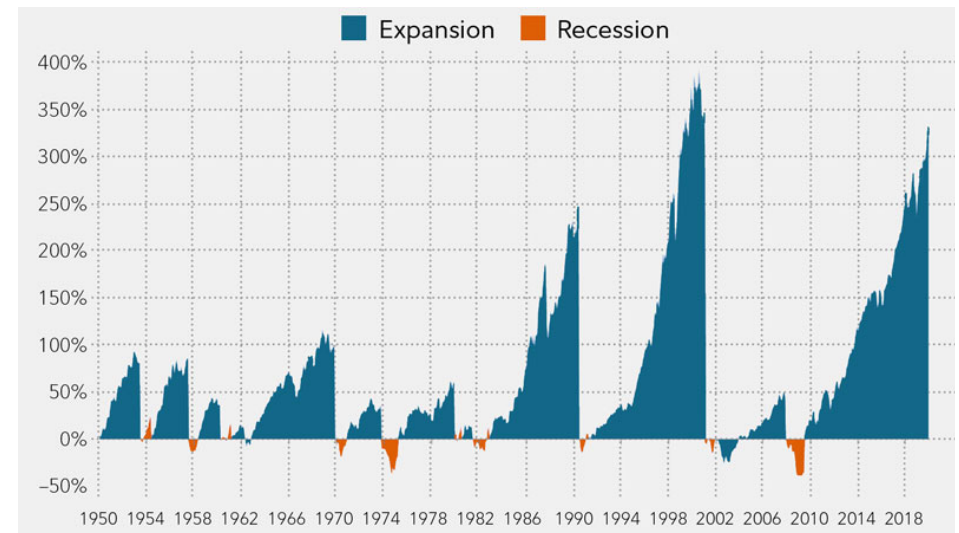


market sectors ebbed and flowed in nearly an identical fashion. The .92 inter-sector correlation (1.00 is perfect correlation) of the S&P 500 is nearly twice that of the historical average over the past thirty-five years.

In most instances, the equity market anticipates an economic recovery in advance of any good news. The turning point generally is when we experience less bad news. History would suggest that the market begins to recover three to four months prior to the end of the recession. Recall, the definition of a recession is two consecutive quarters of negative GDP growth. There is a growing sentiment among economists that we have entered a recession and as the coronavirus crisis subsides, we should begin to see positive economic growth in the fourth quarter of 2020.

## Economic Expansion vs Recession

Oftentimes, there is a tendency to lose a sense of perspective during times of disruption and crisis. We focus on short-term events, managing detail and controlling one's emotions rather than placing our emphasis



Source: Capital Group



## *Market Insights Continued*

on the big picture. David Vaughan would remind us that we must focus on the “doughnut not the hole.” The Capital Group, a fundamentally driven investment firm founded back in the 1930s, assembled a wonderful chart that reminds us all that economic expansions far outweigh recessions and stock market gains during times of economic growth are significantly greater than the losses incurred during Bear markets.

### **Status Update - Money Market Funds**

In recent weeks we have received several inquiries relating to the safety and liquidity of money market funds held within client investment accounts. Over the past year or so, DVI has primarily elected to use purchased prime money market funds versus bank sweep fund options as there was a significant yield advantage to do so. Specific to these purchased money funds, in 2014 the Securities and Exchange Commission (SEC) finalized new regulations that were later adopted in 2016. These new regulations imposed the following on money market funds:

- A 30% minimum liquidity ratio (Cash & Treasuries to Total Assets)
- Levy a liquidity fee of up to 2 percent if the liquidity ratio drops below 30% or the imposition of a gate of up to ten days on fund redemptions

Due to the unprecedented demand for cash assets by both corporations and individuals beginning the week of March 16th, investors redeemed in record numbers their ownership in prime money market funds. This caused, in some instances, fund liquidity ratios to approach the 30% minimum. The Federal Reserve elected to solve this problem by creating a Money Market Mutual Fund Liquidity Facility. In effect, the Fed loaned money market funds the cash to meet these record high redemption

amounts. These loans were collateralized by securities that the fund companies were unable to sell at reasonable prices due to illiquid markets. As markets stabilize, these short-term securities will mature, and the loans will be paid down. Money market funds are required by the SEC to maintain a weighted average maturity of 60 days or less.

In the near future, the yield differential between purchased and bank sweep money market fund yields will narrow considerably and at that time DVI will likely maintain portfolio cash balances in the bank sweep fund option. Going forward, traditional bank deposit insurance coverage provided by the FDIC will apply to these balances.

