ANALYTICS INVESTMENT ADVISORS, LLC

Covid-19 and U.S. Economy

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"The pandemic has prompted an anachronism, a revival of the walled city in an age when prosperity depends on global trade and movement of people." Henry Kissinger [1]

What?

- An unrelenting Covid-19 caused financial markets indices to close sharply lower YTD as of March 31, 2020. The Dow Jones Industrial Average ($DJI) dropped 23.2% (the worst first quarter in history); whereas, the S&P500 ($SPX) declined 20.0%.
- Covid-19 was unexpected, swift and cataclysmic in terms of the economic impact and human suffering. As of this inscription, 461,439 Americans have become infected and 16,478 have died.
- Despite these grim statistics, the likelihood that this pandemic will quickly be mitigated and conquered is becoming more evident, offering hope and expectation that normal human and economic activity will soon be restored, and the U.S. will emerge a more resolute defender of human rights and a prosperous nation.

Why?

- Covid-19 is a natural disaster not a classic 1930's style depression that lasted 12 years due to monetary and fiscal shocks to the nation.
- The U. S. Federal Reserve and Treasury have been extremely proactive in creating liquidity that will help keep markets working efficiently.[2]
- The stock market has begun to price in evidence of moderation as the daily rate of infections and deaths showing signs of lessening.
- Covid-19 statistics reveal that 16 countries accounted for 86.2% of all cases and 89.7% of all deaths as of April 9th. The average death rate for this subset was 5.9% of cases.[3]
- Countries that have taken decisive action demonstrate that the virus can be controlled. For example, 7 countries representing 50% of cases have deaths as a percent of cases between 2.0 and 3.9%; including, South Korea (2.0%), Turkey (2.1%), Germany (2.2%), Austria (2.2%), Canada (2.4%), Portugal (2.9%), United States (3.64%) and Switzerland (3.9%).

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[1] "The Coronavirus Pandemic Will Forever Alter the World Order", *The Wall Street Journal*, April 3, 2020.
[2] "It is possible there's going to be short, sharp recession in the next quarter, because everything is shutting down... However, if there's not too much damage done to the workforce, to businesses during the shutdown period, then we could see a quick rebound"; Ben Bernanke, "Very Sharp Recession Followed by a Fairly Quick Rebound", *Newsmax*, March 25, 2020.
[3] Source: John Hopkins University Covid-19 Statistics, April 9, 2020.

- Social distancing implemented nationwide has slowed the virus, changed human behavior and increased the likelihood that hospitals will not be overrun.
- There is a dichotomy between the economy and the market, with the latter having a forward perspective in terms of anticipating and measuring the impact of the damage to the economy being mitigated and medical solutions becoming manifest.
- For example, the market, as measured by QQQ (ETF for Nasdaq 100), has increased 18% from the market low on March 23, 2020; whereas, the SPY (ETF for S&P500) has rebounded 24%.
- For the 12 trading days since March 23rd there have been 8 follow-through days above the market low with the price of QQQ intersecting the both 50 and 200 day moving averages.
- Moreover, the relative strength of QQQ is 88, which in conjunction with RT[4] (relative trading volume: buy/sell) greater than 1, provides additional support of a "confirmed upward trend".[5]
- The S&P 500 dropped .2% in January, 8.4% in February and 12.5% in March of this year (a triple dip), a situation that has only occurs 6 times (1973, 74, 77, 82, 2008, and 2020) since 1950, for which five time periods averaged an 8.5% decline. The only positive year for the index was a 25.6% increase in 1982 during which the U.S. economy was coming out of a recession. To quote Sam Stovall: "I have a feeling that like 1982, we will have a summertime bottom followed by a rest-of-year surge."[6]
- The overwhelming national response, patriotism and desire to return to a new normal which emphasizes freedom, innovation, pride and social justice worldwide could very well be a dominant and resounding factor in an earlier than anticipated economic and market rebound. The coronavirus pandemic may have already begun to alter the world order forever..."[7]

How?

- Regardless of the timetable for defeating Covid-19, it will be defeated. Moreover, any resurgence thereof is likely to be thwarted by new and future technical innovation, better appreciation for the logistics and sad realities of such perils.
- Accordingly, whether one anticipated the unexpected, or not, stay optimistic as the forthcoming prospects for life, liberty and happiness are robust. Stay fully invested in Exchange Traded Funds (ETFs) that are global in scope, emphasize sectors with outperforming U.S. companies[8], and have strong Relative Strength (RS)[9] .

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[4] *VectorVest*, April 9, 2020.

[5] *Investor's Business Daily,* Sectors, "Is the Triple Dip in Stocks a Good or Bad Sign", Matt Krantz, April 1, 2020

[6] Ibid.

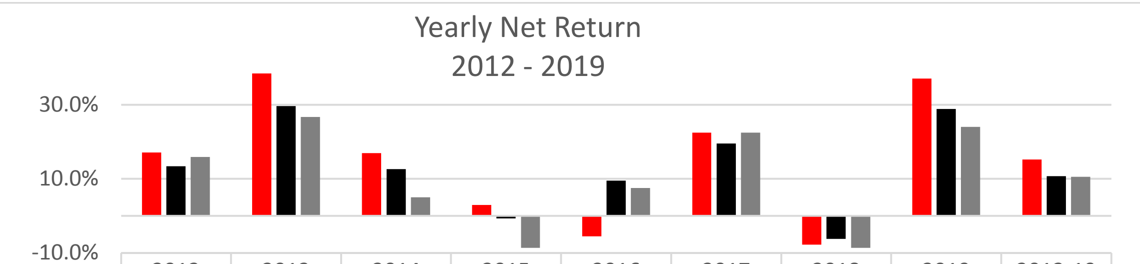
[7] A paraphrasing of the title of Henry Kissinger's article noted in footnote 1.

[8] Technology offers good value. For example, the top five firms in the QQQ, Alphabet, Amazon, Apple, Microsoft and Facebook have combined $587B in cash and $207B debt (see Eric Savitz, Big Tech – The Growth Play, *Barron's*, March 23, 2020). QQQ is a core holding in almost all of AIA, LLC's strategic allocations depicted in the following table.

[9] A good rule of thumb is RS >=85. It has been demonstrated in four published research papers and an independent regression analysis by AIA, LLC that between 1930 and 2018 that for every 10% increase in RS there has been on average a corresponding 3% increase in yearly returns, the conversion of which would equate to an excess return of 6% when compared to the current RS of 66 for SPY (see www.AnalyticsLLC.net, Commentary, "Momentum Investing with Exchange Traded Fund, Recap and Update, October 8, 2018).

Performance Summary[10]

	2012-19 Avg.	YTD[11] 03/31/2020	AUM	Beta	R^2	SD	Sharpe Ratio
S&P500 ($SPX)	**10.70%**	**-20.00%**					
Barclay US TR	**2.16%**	**3.15%**					
Cautious	n.a.	n.a.	0%				
Moderate	13.26%	-18.44%	10%	.99	96	15.39	.64
Assertive 1	15.16%	- 21.28%	45%	1.13	96	17.54	.59
Assertive 2	20.35%	- 25.47%	21%	1.39	58	27.54	-.01
Aggressive	24.84%	- 33.13%	23%	2.08	95	32.47	.50



	2012	2013	2014	2015	2016	2017	2018	2019	2012-19
Assertive1	17.1%	38.4%	16.9%	2.9%	-5.6%	22.4%	-7.8%	37.0%	15.2%
S&P500	13.4%	29.6%	12.6%	-0.7%	9.5%	19.5%	-6.2%	28.9%	10.7%
MSCI World	15.8%	26.7%	4.9%	-8.7%	7.5%	22.4%	-8.7%	24.0%	10.5%

	2012	2013	2014	2015	2016	2017	2018	2019	TYD 2020
S&P500	13%	44%	62%	61%	76%	110%	97%	154%	103%
Assertive 1	17%	62%	89%	95%	84%	125%	108%	184%	124%
Aggressive	23%	107%	111%	124%	98%	193%	152%	345%	198%

[10] **Cautious:** Investors seeking better than nominal returns, but with low risk and emphasis on wealth preservation. **Moderate:** Prudent investors desiring portfolios designed to accomplish medium long term return. Calculated risk is acceptable to achieve good returns. **Assertive 1 & 2**: Investors with sufficient income to invest mostly in capital growth. Higher volatility and more aggressive investments are acceptable to accumulate wealth in the long run. **Aggressive:** Investors intending to compromise portfolio balance in pursuit of higher long-term returns. Security of capital is secondary to potential wealth accumulation.

[11] Net Average Return, Portfolio Center, Schwab Portfolio Technologies. Fees are negotiable and range between .5% to 1.0% per year for assets under management. Risk Statistics, Morningstar Advisor Workstation; most recent 3 years, computed quarterly.

Beta	Expected change in portfolio return per 1% change in market index return.
R^2	Percent of variation in regression equation explained by the independent variable (S&P500).
SD	Standard deviation of the dependent variable (Net Return).
Sharpe	Reward-to-Variability Ratio; i.e., portfolio return above risk free rate of return divided by standard deviation (RVAR).