CB3 Financial Group

cb3financialgroup.com
312-513-7486

CB3 on 3


Charles Brown, CMT,
President & Portfolio Manager

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SUMMARY: The month of February will likely be recorded in history as one of the most dramatic "jackknifed" months of market performance: stocks traded from new lifetime highs to correction status in six days. FEB will also likely be remembered as the month that introduced the greatest risk to the current eleven-year bull market. After closing at lifetime highs on FEB. 19th in the S&P 500 and NASDAQ, the market plunged more than 12% into "correction status." You will notice that there is now a new, fourth topic area: *Coronavirus*. For the time being for my commentaries, it will be "CB3 on 4." What's next? Let's take a look…

Coronavirus

Over the last two weeks, we have witnessed the fastest 10%(+) correction ever recorded for the S&P 500 from a new record high. Simultaneously, the yield on the 10-year treasury is now trading *well* below 1% for the first time in history. The tough times that global markets were experiencing, due to the spread of the coronavirus (COVID-19), worsened this past weekend as a price war between Saudi Arabia and Russia resulted in sharply declining oil prices. We should remember that it is fairly common for stocks to enter bear market territory, defined as a cumulative drop of 20% or more, without being in a recession. Market drops are sometimes more fueled by the fears of a recession rather than a recession itself. Historically, in pandemics, stocks usually begin recovery as the number of new diagnosed cases stabilizes, not necessarily even declines. Our natural inclination can be to sell. History has taught us that rampant volatility creates opportunities—as in 2008, 2011, 2016 — and as recently as December 2018. Those who sell in a market storm are at risk of missing major stock market rebounds. Selling under those conditions is perhaps is the biggest risk to achieving our long-term investing goals.

I want to look at these basic questions: 1) Has the intrinsic value of those companies changed that drastically in such a short time? 2) Are the companies you own still worth what you thought they were worth at the beginning of the year? 3) Has the intermediate future earnings potential of those companies dramatically changed in two months? 4) Is it a short-term change in earnings? 5) Or will it have a long-term impact? 6) Has the long-term earnings potential changed as much as the stock's price? Those are the questions that need to be asked. None of these answers should have anything to do with guessing what the market will do next.

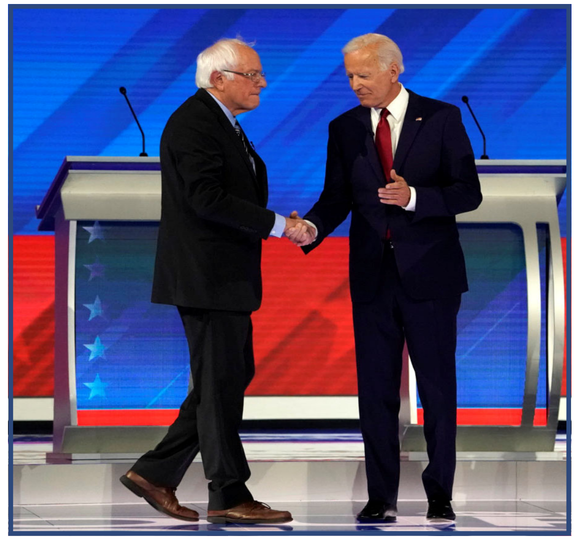
Here are the S&P 500 performance facts, with data from Seeking Alpha as of March 2, 2020.

- *33 stocks or 6.5% of the index are up over 10% YTD.*
- *146 stocks or 28.9% of the index have a positive return* YTD.
- *7 of the 10 biggest companies in the index have outperformed the index YTD* (JPM, FB, and BRK.B underperformed).

In a matter of two months, *the market has already repriced the S&P 500* companies somewhere in the range of +31% to -51% so far. The market believes some companies will be hit hard, others won't be impacted much if at all, and some will actually benefit. This means that there are still plenty of opportunities in the market — and plenty of areas to avoid. *And it is that discernment that we at CB3 are razor-focused on* as we make choices for your investment allocations. After an epidemic — or pandemic — history shows that *the market overexaggerates the impact of surprise events before getting it right*. The market participants come back to their senses… eventually… because companies have a value and the market realizes that value in the long run. It just requires patience and time. Stocks have weathered wars, natural disasters, terrorist attacks, financial crises, and many other economic and geopolitical shocks. I do not expect this current global challenge will end any differently, folks!

Political

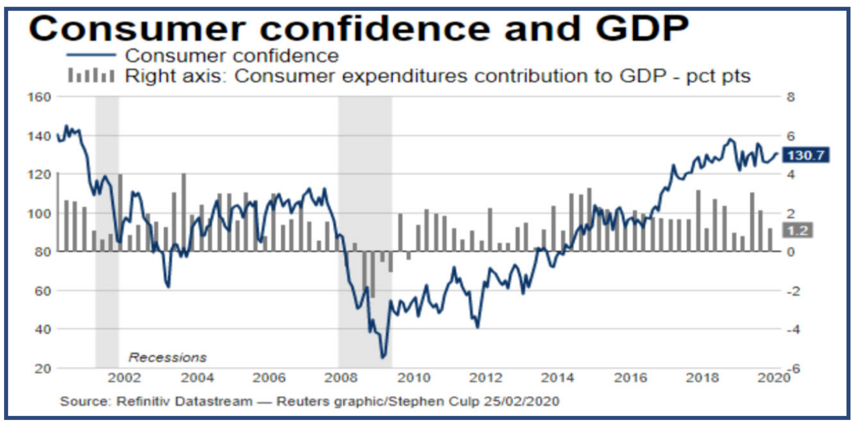
This past week — with its Super-Tuesday Democrat Primary outcome — will likely be viewed as the turning point where the Democrat party decided to move back to the center with a Joe Biden likely nomination. The market responded positively to the



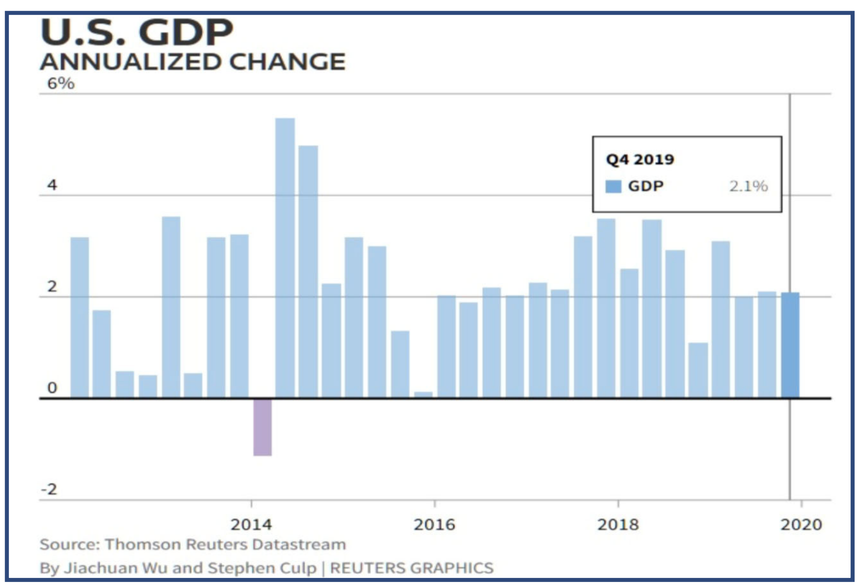
prospect that Bernie Sanders', anti-traditional-healthcare-sector message is not going to resonate with enough American voters.to allow him to win the nomination at the Democrat July Convention in Milwaukee. While it is still mathematically possible for Sanders to win the nomination, it will likely take a major gaffe or health issue with Biden for Sanders to lead with delegates heading into Milwaukee. Also, both men are almost octogenarians. Voters may be concerned about that fact, too. We will see…

President Trump, himself largely out of the news with the Democrats front and center, announced that his administration plans to begin taking DNA samples from migrants crossing the border or held in detention for use in a federal criminal database, a significant expansion of immigration laws that is certain to raise privacy concerns. The new rule, posted by the Justice Department on Friday and set to take effect in April, will require immigration officers to collect cheek swab samples from what could amount to hundreds of thousands of unauthorized immigrants taken into federal custody each year, including migrants at the border and people asking for asylum. It is an Executive Order that could likely find itself appearing before the Supreme Court later this year.

Fundamental



Last Friday was "The best Non-Farm Payrolls report that no one noticed" since I can remember. The data — albeit reporting from prior to the Coronavirus outbreak — was nonetheless, very strong. Employers hired at a strong clip in February, unaffected at that point by the impact of the spreading coronavirus. The better-than-expected report did little to lift stocks. Still, Nonfarm payrolls rose 273,000 last month, the Labor Department said, much more than the 175,000 economists surveyed by Bloomberg anticipated. The increase matched an upwardly revised 273,000 gain in January, when unseasonably warm weather boosted hiring in areas like construction.



Many analysts say investors shouldn't put too much stock in the February report, although *it is worth considering how the economy was faring before the coronavirus began spreading across the U.S.* Still, some economists say the strong February jobs report—likely the last big gauge of economic health before any virus toll kicks-in — DOES matter." Personally, I do think this strong payrolls data — coupled with increasing consumer confidence and the U.S. GDP at just above 2% — will provide a cushion for what will likely become a softening U.S. economy in 2Q20 and 3Q20.

Amazingly, the same week, Federal Reserve cut the bench-mark rate by *fifty* basis points and the market still tanked that same day. Yes, folks, it is crazy markets they are…

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Technical

The S&P 500 traded in a VERY wide 8% range this past week before finishing with a modest gain of 0.61%. This chart is from my friend & market analyst, Tom Bowley, of Earnings Beats.com. Tom observed that perhaps the biggest positive was the way we finished every day last week. ***The final hour or two of each day showed significant buying interest:*** The green-shaded areas highlight trading during the final two hours of every day last week. Only Thursday showed weakness. *Normally, in a bear market, we grow accustomed to selling at the end of the day as no one wants to hold overnight.* That didn't seem to be an issue last week. I am seeing that as a positive factor heading into this week's trading.

Monday, the 9th, was a huge down day, and Tuesday the 10th has begun recouping some of those losses, closing the trading day with a strong gain. Volatility — up and down — is clearly with us now. All that said, I am still expecting a positive market performance for 2020 heading into Election Day. We're here for you … just call or write with any questions.

About the CB3 Separately Managed Accounts (SMAs):

Capital Growth (CG)

CG uses advanced technical analysis to identify stocks with attractive momentum characteristics, targeting an investment objective of capital appreciation. These stocks must also have a growth "story." The portfolio is comprised of 20-40 equities and ETFs across all market capitalizations. Up to 50% of assets may be invested in cash. International and alternative asset positions may be used. **Benchmark: iShares Russell 1000 Growth (IWF)*

Organic Value (OV)

OV invests in stocks of established companies that are attractive on a technical basis and may be fundamentally undervalued. These stocks are returning capital to their shareholders through dividends and stock buybacks. The objective is capital appreciation. The portfolio is comprised of 20-40 individual positions. Up to 50% of the assets may be invested in cash. **Benchmark: iShares Russell 1000 Value (IWD)*

Dynamic Income (DI)

DI utilizes dividend-paying equity securities to generate income per its investment objective. The portfolio is comprised of 20-40 holdings, primarily in U.S. companies, with equity holdings concentrated among large-cap stocks. Favored stocks have an increasing three-year net growth in payout. The portfolio may contain up to a 10% weighting in international and 60% in cash. **Benchmark: iShares Select Dividend (DVY)*

Conservative Yield (CY)

CY invests in fixed income ETFs and CEFs, aiming to produce a total return exceeding its benchmark, but also protecting its capital base. The portfolio can invest in anything from U.S. Treasury, short and long term corporate, international, emerging market, domestic and international high yield, and leveraged bonds. Holdings range across durations and bond sectors. Up to 60% cash can be held. **Benchmark: Vanguard Total Bond Market (BND)*

Small Cap (SC)

SC invests in small and micro-cap securities with the goal of capital appreciation. Dividends are merely incidental in this program. The portfolio is comprised of 20-40 holdings, almost exclusively U.S. companies. Capitalization of equity holdings is limited to small- and micro-cap stocks. Favored stocks have technically favorable attributes within sectors that are also technically strong. SC stocks may contain up to a 10% weighting and up to 60% in cash. **Benchmark: Russell 2000 (IWM)*

570 Crescent Blvd | Suite 503 | Glen Ellyn | IL | 60137

Office: 312-471-1630 | E-mail: cb3@cb3.com | Website: cb3financialgroup.com