DVI
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DVI Update

First and foremost, I wish to express DVI's genuine commitment towards helping you through yet another extraordinary time in the history of our nation's economy. As we have learned during past market disruptions, being able to make thoughtful unemotional investment decisions when the world around you is seemingly upside down is paramount. We are personally vested in your financial success and DVI will be there when you need us the most.

DVI's Response to COVID-19

Protecting the health of our clients, colleagues, strategic partners and communities in which we work and live is our top priority and we are attempting every day to take the necessary steps to achieve this goal. We are closely monitoring the situation and will do all that is humanly possible to protect the welfare of our valued stakeholders.

Business Continuity

For many years now, DVI has embraced technology that has allowed DVI Associates to securely access mission critical resources from remote locations. What used to be a convenience is now essential as we prepare for the likely possibility of many members of our workforce working from home. As communication redundancy is also critical at times like these, we are blessed to have multiple offices, operational flexibility and video/conference call resources to maintain the continuity of communication to both internal and external parties. Once implemented, the integration of DVI's traditional and virtual communication channels should be seamless.

Up to the Challenge

Despite our hopes and prayers that the impact of the novel coronavirus on our daily lives is short lived, it is more realistic to assume that we will be operating under these unusual circumstances for some time. We believe that we have the commitment from our Associates, the technology infrastructure and the right business partners to see us through these most challenging times.

We are most grateful for the trust and confidence you have placed in DVI. Thank you.

Market Insights

If one had the ability to forecast accurately and consistently the economic ramifications of a "Black Swan" event such as the coronavirus pandemic, we would have embraced that capability years ago. However, DVI is left simply with the fact pattern as it exists in our rearview mirror and economic history as the best guide to determine appropriate next steps.

The History of Bear Markets

		Market Peak	Market Trough	# of Months	% Drawdown	Recession
1	Crash of 1929	Sep-29	Jun-32	32	-86.00%	X
2	Fed Aggressive Rate Tightening	Mar-37	Apr-42	61	-60.00%	X
3	Post WWII - Demobilization	May-46	Jun-49	36	-30.00%	X
4	Global Recession	Aug-56	Oct-57	14	-22.00%	X
5	Cuban Missile Crisis	Dec-61	Jun-62	6	-28.00%	
6	Financial Crisis Credit Crunch	Feb-66	Oct-66	7	-22.00%	
7	Civil Unrest - Technology Crash	Nov-68	May-70	17	-36.00%	X
8	OPEC Oil Embargo	Jan-73	Oct-74	20	-48.00%	X
9	Volcker Fed Tightening	Nov-80	Aug-82	20	-27.00%	X
10	'87 Crash - Portfolio Insurance	Aug-87	Dec-87	3	-34.00%	
11	Technology Boom & Bust	Mar-00	Oct-02	30	-49.00%	X
12	Mortgage Related Financial Crisis	Oct-07	Mar-09	17	-57.00%	X
13	Coronavirus / Oil Price Collapse	Feb-20	Mar-20	2		?
		16 Trading Days			-27.00%	
			Average Decline		-40.46%	

Sources: JP Morgan Asset Management, Morgan Stanley Research

The definition of a Bear Market is a stock market decline from peak to trough of 20 percent or more. The S&P 500 Index recently declined 27 percent in a mere 16 trading days, the fastest decline on record. Using history as a guide, we know more times than not a Bear Market is a leading indicator of an economic recession. There have only been three instances in modern stock market history in which the economy went through a "soft landing" versus a full-blown recession. The Crash of 1987 is the most recent example. And many analysts point to the Crash of 1987 or the market decline influenced by the Cuban Missile Crisis as possible examples of what we could expect from the coronavirus inspired market panic. A swift market decline with a brief duration, rather than a prolonged Bear Market that lasts for years. Because of the unprecedented nature of the recent decline, we may need to remind ourselves that patience may be a virtue. Even brief Bear Markets by historical standards are measured in months not days.

Continued on page 2

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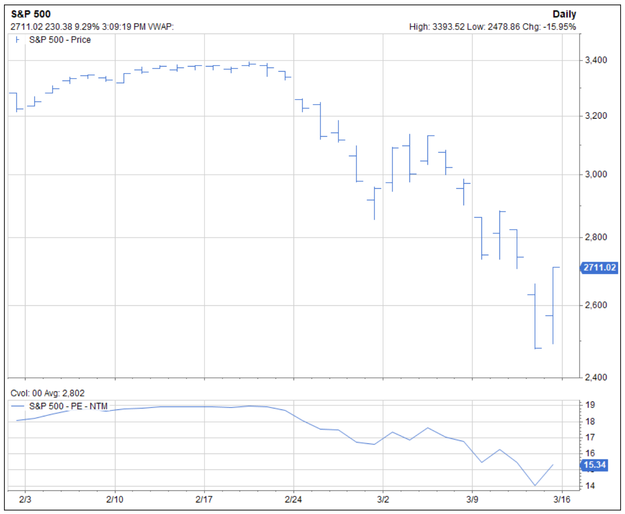
Market Insights Continued

Impact on Corporate Earnings

If the market is pricing in an economic recession, how dramatic of a decline should we expect in corporate earnings? And if earnings do decline, what is a reasonable level for the S&P 500 under those circumstances?



2019 EPS		2020 EPS	S&P 500 16x NTM	S&P 500 17x NTM	S&P 500 18x NTM
	5% Decline	$ 154.85	2477.6	2632.5	2787.3
$ 163.00	10% Decline	$ 146.70	2347.2	2493.9	2640.6
	15% Decline	$ 138.55	2216.8	2355.35	2493.9

Source: Factset

We would like to think a 15% decline in corporate earnings would be a worst-case scenario for 2020 Earnings Per Share (EPS). If we applied a 17x Price Earnings (P/E) multiple to those trough earnings, it would suggest a reasonable price level for the S&P 500 Index of 2355. On March 12, we reached a low of 2478, or just about 5 percent above that level. It just so happens that 2355 also represents the low of the market back in December of 2018. The key takeaways: 1) Much of the price decline damage has already been priced into the market 2) The steep decline, though troubling, will have erased 2019 outsized gains and land us back to year end 2018 market levels.

The Recent Slide in Oil Prices

If the coronavirus and the containment policies put in place to minimize the spread of the pandemic were not bad enough for the global economy, the recent dispute between Saudi Arabia and Russia on oil production cratered oil prices, with a 50 percent decline ($30 per barrel) literally overnight.

Over the long-term this development will provide yet another economic stimulus to U.S. consumers, but in the near term it will contribute to the financial instability to a growing sector of the U.S. economy.

Monetary & Fiscal Response

Considering current market and economic conditions, the Federal Reserve announced on March 3rd after an emergency meeting of the Federal Open Market Committee (FOMC) a reduction in their targeted short-term rate by 50 bps or one-half of one percent. They held yet another emergency meeting on March 15th and lowered once again the Fed Funds target rate by an additional one percent. In addition, action was taken to provide additional liquidity to the credit markets.

On the Fiscal Policy front, the Trump Administration on March 13th declared a national emergency over the coronavirus, which made available an additional $ 50 billion in Federal funding. The House also passed a relief bill to provide additional compensation to those negatively impacted directly or indirectly due to the coronavirus.

Optimistic yet Realistic

The U.S. economy is yet again in unchartered waters as it struggles with the side effects of the coronavirus pandemic. Schools have been shut down, travel has been restricted, sporting events cancelled, companies across the nation have fully embraced work-from-home, all in an attempt to contain the virus.

The near-term economic consequences are severe, but how severe is yet to be known. In the near term there is still a great deal of uncertainty on so many fronts. Daily market volatility makes staying the course increasingly difficult, even though we know it is the right thing to do. I was told once, "volatility does not cause economic loss, selling does." In the meantime, we will do our very best to unemotionally communicate the facts as they continue to unfold in the weeks and months ahead. It is essential that we attempt to understand the events of the day so that we can determine the most effective tactics to weather yet another perfect storm.