

NOW'S A
GOOD TIME
TO GET SOME
GOOD ADVICE

SHELTERING IN PLACE

PORTFOLIO PERFORMANCE

For the quarterly period ended 3/31/2020 (Q1, 2020), Avalon client portfolios experienced modest losses as gains from holdings in gold, long-term US treasuries and equity hedges were offset by losses from holdings in equities and real estate. On a 12-month basis, client portfolios are positive despite most major equity indices showing sizable losses.

Guided by our model, which indicated growing weakness in many risk assets, we aggressively moved to a defensive portfolio position early in the year and maintained it throughout the quarter. Towards the beginning of January, we took action to reduce client exposure to US small cap and natural resource stocks (-ex gold) and international equities as investor sentiment cooled significantly. When equity prices began to decline in late January, relative weakness in international markets and US small cap made these the ideal candidates for hedging existing US equity exposure that was tilted toward better performing large cap growth, high quality and low volatility stocks.

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MARKET AND ECONOMIC BACKDROP

The global pandemic has upended the economy and markets in an unparalleled manner. From an economic standpoint, the March 26 initial jobless claims number of 3.28mm was the largest one-week number the U.S. has ever seen. From an equity market perspective, the rapid meltdown of 33.7% in the S&P 500 from a peak on February 19 to the trough on March 23 was the swiftest in history. Such extreme volatility in such a short time period echoes the stress levels reached in the Great Recession in 2008. Even after a sharp recovery in the final week of March, the Dow Jones Industrial Index recorded its worst quarter since Q4 1987. For the quarter, the S&P 500 finished down 19.4% while the Nasdaq 100 finished down 10.3%. Of note is that these large cap growth indices outpaced the Dow Jones Industrials (down 22.7%) and U.S. Small Cap equities (down 30.7%) as well as most international equity indices for the quarter.

While the economic and market shocks are unprecedented, the monetary and fiscal response has also never been this great. The Federal Reserve is creating a new playbook in its actions to stabilize the credit and overnight funding markets as well as markets more generally. It appears as if the Federal Reserve's \$4.2 trillion balance sheet, a hangover from Quantitative Easing post the 2008 crisis, is likely to double this year. In a similar fashion, Congress has implemented massive fiscal policies designed to lessen consumer and corporate shock from the economic chaos.

To borrow a medical analogy, the monetary and fiscal stimulus is akin to placing the traumatized economy in an induced coma. While the goal is the long-term health of the economy, there are many risks with this approach. In addition to the dislocation caused by the lockdown, the unintended consequences of such a rapid approach to stabilizing the economy are likely to manifest over time. More directly, it is too early to tell when the economy will resume normal operations or what a normal post-Coronavirus economy will look like.

LOOKING FORWARD

The fundamentals we are analyzing are as much public health as they are asset-specific given the predicate for economic success is a sustained flattening of the curve. We do believe that science, data, and testing alongside a coordinated strategy and behavioral modifications offer a reasonable solution to this public health crisis.

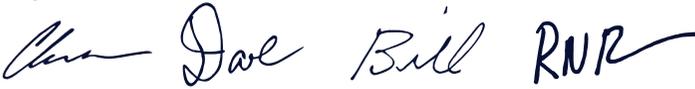
As we monitor the public health issues, we also continue to analyze the markets. We continue to be overweight safe haven assets such as gold and U.S. Treasuries and remain underweight equities, real estate, and economically sensitive commodities. We are analyzing the opportunities created by such a rapid improvement in expected returns against the risks of further negative demand shocks to the system. Were we to see the credit and funding markets stabilize, investor behavior normalize and the rate of change in new Coronavirus cases begin to slow, we would increase our allocation to equities. Until then, we remain defensively positioned.

ALL IN THIS TOGETHER

This is a stressful time for most Americans. And yet, we know that our country responds to these moments with an unmatched energy and ingenuity. We are confident that this will happen again. We see it playing out with so many of our fellow citizens coming together and sacrificing towards a common goal. We see it with our health care workers. We see it with those organizing food drives to feed the needy. And we see it with people staying home. We are all in this together!

We wish you good physical and mental health as you do your part to flatten the curve. And we hope you reach out to us if you have any questions about your accounts or this letter.

Regards,



Clara Basile David Rahn Bill Oberman Ross Revenaugh

The opinions expressed are those of Avalon Capital Management as of April 7, 2020, and are subject to change. There is no guarantee that the forecasts made will come to pass. This material does not constitute investment advice and is not intended as an endorsement of any specific investment. Investment involves risk of loss, especially in volatile markets. Past performance is no guarantee of future results. Investing in foreign markets involves currency and political risks. Data contained here is obtained from what are considered reliable resources; however, its accuracy, completeness or reliability cannot be guaranteed. Indexes are unmanaged, do not incur fees or expenses, and cannot be invested in directly. Investment strategies such as diversification do not assure a profit and do not protect against losses in a declining market. Other than the research noted by footnotes, the research underlying this piece represents Avalon Capital Management's proprietary research activities. Most indices we mention are well known and full descriptions can be found at wikipedia.org.

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