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# Robert G. Elliott's
# FINANCIAL NEWS

40 BURTON HILLS BLVD., SUITE 350 • NASHVILLE, TENNESSEE 37215 • PHONE (615) 255-6431, TOLL-FREE 800-827-7862 • WILEYBROS.COM

## When Will It End?

If you're not sure what to do in the current market situation, you're not alone. Investors around the world have been battered recently, as the coronavirus has taken on broader implications.

The questions on everyone's minds are: Just how bad are the markets and economy going to get? What should we do about it? Is it time to sell every stock we own, withdraw all of our money from banks, and bury everything in the backyard? Or are we really looking at an opportunity to purchase stocks at low prices?

Don't let your fear about the coronavirus and concern about the market declines affect your investment plan. Some points to keep in mind include:

**Don't Sell Now.** While stocks may still go lower, they have already declined substantially. If you have held them this long, don't give in and sell now. You would then lock in those losses without an opportunity to participate in the market recovery.

**Quit Looking for the Bottom of the Market.** The bottom of the market will only become apparent in hindsight. In the meantime, if you are waiting for that event, you aren't investing at current prices. If you were comfortable purchasing stocks in 2019, why not purchase them at today's much lower prices? There is always a risk that stock prices will go lower, but over the long term, stocks have historically had positive returns. Take advantage of today's lower prices and keep investing.

**Diversify Your Investments.** Be honest – is your current emotional distress caused solely by the bear market or was the impact of the bear market compounded by an overallocation in stocks? The main lesson to learn from the current bear market is that diversification helps reduce risk. Take another look at your asset allocation, making sure you are adequately diversified among a variety of investment categories. Don't just consider the traditional asset classes of stocks, bonds, and cash. Investigate alternative investments like real estate and commodities.

**Purchase Stocks with Less Volatility.** Stocks do not perform as a group. Some have higher average returns while others have lower average returns. Some swing significantly above and below those average returns while others don't fluctuate as much. Before purchasing a stock, review its return volatility so you select stocks compatible with your risk tolerance.

**Don't be Concerned that You Didn't Time the Market.** Don't even think about what would have happened if you had sold all your stocks in early 2020. Most professionals didn't even accomplish that feat. Timing the market is a very difficult strategy since it is affected by so many factors. Instead of timing the market, concentrate on establishing an investment program that works on all market environments and that you can stick with in both good and bad times.

**Save More.** When returns are declining, other strategies are needed to help you increase your portfolio. One of the most effective strategies is simply to save more of your income. Even modest savings increase can make a dramatic impact on your portfolio's ultimate size.

**Make Sure You Enjoy Your Job.** This may sound like an odd tip for investment planning, but the reality is that the current bear market significantly reduced many investors' portfolios. At least some of those investors are now likely to find that they won't be able to retire when they had planned to. They may need to work longer or part-time during retirement. If you have to work longer, doesn't it make sense to enjoy what you are doing?

**Take Another Look at Your Investment Plan.** While your plan should serve as a long-term investment guide, it is difficult to go through a period like this without needing some changes to your plan. Perhaps your actual asset allocation doesn't reflect your current risk tolerance. Maybe you used an estimated rate of return that was too optimistic. Or you may need to adjust your retirement date so you have more time to accumulate your retirement portfolio. Now is a good time to thoroughly review your investment plan, making sure your assumptions are reasonable and that you can live with the plan in the future. (Keep in mind that past performance is not indicative of future results.) Please call if you'd like help with this process.

(Allie, Bob, & Sarah)

# Personal Note

I am writing this note from my home office where I've been working remotely the past six weeks. My daughter/partner, Sarah, is also working from our house and her younger sister, Tate, is completing her junior year in college from her bedroom upstairs via the internet and Zoom. Tate actually celebrated her 21st birthday recently in quarantine and while that was definitely NOT her plan a few months ago, I believe we made the best of it and enjoyed a sweet time together as a family. My wife, Cassie, has been working extremely hard keeping us well stocked with food and supplies, planning meals, and cooking everything we eat. I expect that I will need to go on a diet when the quarantine ends! Like everyone else in America, our lives have certainly changed quite a bit since the beginning of March.

If you recall, which I am sure you do, in late January when the world caught wind of an emerging outbreak in Wuhan, the immediate concern was how the virus would affect China's economy. Within a few weeks, however, the markets realized that COVID-19 was no mere local epidemic. As the virus spread across the world concerns grew. How would a global pandemic affect the global economy? How would it crimp supply lines and consumer spending? Would it cause a recession? As the weeks passed it became clear that we were experiencing something few had ever seen before. The pandemic wasn't just affecting people's health or the stock markets. It was changing our daily lives. As a result, the economy imploded. Approximately 22 million people have filed for unemployment in recent weeks, and that number is all but certain to go up. [1] Economies all over the world are facing their sharpest downturns since at least the Great Recession. And while some countries seem to be "flattening the curve," the number of worldwide cases continues to climb, including here in the U.S.

Then, to make matters even more bizarre, oil prices fell below zero for the first time in history! [2] I received many calls and emails around this period that asked: why are oil prices crashing? How can they be less than $0? What does that mean for the stock market and for us at the pump? There are many reasons why oil prices fluctuate, but they all come back to one: The Law of Supply and Demand. When demand for oil is greater than supply, the prices rise. Conversely, when the supply of oil is greater than the demand for it, the price drops. That is essentially what is happening now. Due to the coronavirus, the world's appetite for oil is at a multi-decade low. Planes aren't flying, cars aren't driving, fewer goods are being transported so fewer factories are operating. In short, the world has more of the black stuff than it needs right now. In fact, some experts calculate that demand has fallen by 25-35 million barrels per day.[3]

With demand crashing it makes sense that oil prices collapsed, but to go below zero requires a bit more explanation. When it comes to selling oil, there are actually two different markets: the physical market, and the futures market. And, historically, there are two different benchmarks for oil prices: Brent Crude and West Texas Intermediate (WTI). The physical market is where a producer, say Exxon Mobil, sells its oil to a buyer, like a refinery. They agree upon a price, the oil is shipped, and that's that. But when the media discusses oil prices they're usually talking about the futures market. This is where futures contracts are traded between brokers, banks, and other entities. An oil futures contract is for 1,000 barrels of crude, set to be delivered for a specific price at a specific date in the future. There is another group of traders in the market referred to as speculators. These traders have no desire to physically own oil any more than you do. Instead, they make money by betting- speculating- on whether oil prices will go up or down. (To do this, they simply close their position before the contracts expire by swapping with buyers who actually need it.)

So, here's the rest of the story. The contracts for WTI crude set for delivery in May expired on Tuesday, April 20. That means that Tuesday was the last day these May contracts could be traded. Normally, traders who don't want to take possession of oil treat the last few days as a chance to swap contracts with the buyers who do. In the meantime, crude set for final delivery in May is stored at facilities in Cushing, Oklahoma, and the entire process is neat and orderly. But this time there was a new problem: storage. Simply put, the world is running out of space to store all this excess oil- and Cushing is projected to be at 100% of capacity in mid-May![4] As a result, all of these traders with May contracts faced the proposition of taking possession of millions of barrels of crude- with no ability to actually store it. This led to a fire sale of historic proportions. Traders with neither the desire nor the ability to actually take the oil had no choice but to pay others to take the barrels off their hands. The result? WTI prices fell below zero for the first time in history- because the sellers weren't selling. They were paying others as much as $37.63 a barrel to take the oil for them.[5]

With oil prices trading to levels never seen before and the unemployment skyrocketing this begs the question: why have the markets been doing so well since the low point in March? Why are stocks not continuing to suffer, too?

There are two main reasons. The first centers around the government's response. On March 25, Congress passed the CARES Act, a massive $2 trillion stimulus package that provides funds for both unemployed and businesses to keep their staff on payroll. The Federal Reserve, meanwhile, lowered interest rates to near 0% and pledged to buy hundreds of billions in treasury securities and mortgage-backed debt over the coming months. More work will certainly be needed, but these are important, first steps, and they have helped buoy the markets.

The second reason has to do with how the markets often work. You see, the economy and the markets are not the same thing. They're related, but different- and they don't always move in concert with each other. The economy moves based on activity, like production, consumption, and trade. The markets, on

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# Personal...

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the other hand, more largely on anticipation. When investors expect something will happen, they make decisions based off that expectation. So, when the markets plummeted in March, it was based on the expectation that unemployment would rise, consumer spending would fall, and the economy would contract. All those things have happened. So why haven't the markets continued to slide? Because those developments have already been "priced in." The market crash we saw in March was based on what is happening right now. By the same token, the stunning climb we've seen in recent weeks is based on what investors expect will happen in the future- that the provisions of the CARES Act will kick in, more government stimulus will arrive, and the pandemic will end.

So, does that mean volatility is over? To put it simply: no, it doesn't. Right now, there is still a lot of uncertainty. We are dealing with a pandemic for which there is no playbook. While we can make educated guesses, no one knows when this pandemic will end. No one knows whether things will get worse before they get better. To be frank, no one knows whether the government's actions will be enough. Should the headlines take a turn for the worse, we may well see the markets fall again. However, I do believe eventually the pandemic will end and life will go back to normal. We will go back to our offices, take vacations, and visit family members and loved ones without practicing "social distancing."

I might be overly optimistic, but I believe that the scientific community in the U.S. and around the world is filled with very smart and dedicated folks who are working hard to come up with viable treatments and eventually a vaccine. I also have a lot of optimism regarding the people in our communities and nation to come together in times of crisis. The stories of Americans helping other Americans with food, shelter, and money during this pandemic continue to make headlines that are heartwarming. I also look at my own friends and family during this period. I consistently hear of others who are expressing gratitude for time spent together, family games being played, and Zoom meetings that help us stay connected to loved ones. I am not trying to minimize the difficulties of the current period, but I firmly believe that this crisis will eventually fade into the history books just like all those that have come before. And I fully expect Tate will be celebrating her 22nd birthday no longer in quarantine, but with her friends and family in a more traditional setting!

1 "22 million Americans have filed for unemployment benefits," CNN Business, April 16, 2020. https://www.cnn.com/2020/04/16/economy/unemployment-benefits-coronavirus/index.html

2 "U.S. Oil Prices Fall Below Zero For the First Time in History," NPR, April 21, 2020. https://www.npr.org/2020/04/21/839522390/u-s-oil-prices-fall-below-zero-for-the-first-time-in-history

3 "The Big Deal to Cut Oil Production May Not Be Enough," The New York Times, April 13, 2020. https://www.nytimes.com/2020/04/13/business/economy/coronavirus-oil-opec-trump.html

4 "No vacancy: Main U.S. oil storage in Cushing is all booked," Reuters, April 21, 2020.https://www.reuters.com/article/us-global-oil-usa-storage/no-vacancy-main-us-oil-storage-in-cushing-is-all-booked-idUSKCN22332W

5 "Negative Oil Prices Pose Headaches for Futures Giant CME," The Wall Street Journal, April 22, 2020. https://www.wsj.com/articles/negative-oil-prices-pose-headache-for-futures-giant-cme-11587547802

# Municipal Bonds

*We offer the following bonds subject to prior sale or change in price as of April 21, 2020.*

| Ref No | Issuer | Maturity Date | Coupon | Yield to Maturity | Yield to Call | Call Date | Rating | Price |
|---|---|---|---|---|---|---|---|---|
| 1 | Tennessee HSG DEV AGY | 07/01/44 | 2.800 | 2.857 | 2.857 | 01/01/29 | Aa1/AA+ | 99.007 |
| 2 | Harpeth Valley TN Utilities Dist | 09/01/38 | 3.250 | 3.043 | 2.666 | 09/01/25 | AA+ | 102.894 |
| 3 | Wilson County TN | 04/01/35 | 4.000 | 2.856 | 2.100 | 04/01/28 | AA - | 113.825 |
| 4 | Met Gov't Nashville & Davidson | 08/01/33 | 4.500 | 3.741 | 2.000 | 08/01/23 | Aa3/AA | 107.877 |
| 5 | Knox Chapman TN Utility Dist | 01/01/27 | 4.000 | 2.317 | 1.690 | 01/01/25 | AA - | 110.369 |

Callable at 100% beginning of the call date above and every call date thereafter with 30 days notice.

In addition to the bonds listed, we have several other corporate bonds available. If you are looking for a specific bond or maturity, please feel free to contact me with your requests.

We are also interested in buying corporate bonds. If you have bonds for sale, please call me for a bid and details on how you can convert your present bonds to cash or alternative investments.

Finally, new bonds are coming to market every day. If you give me a call, I will be more than happy to go over current market offerings and conditions with you.

*Although the information and statistics are not guaranteed, they have been obtained from reliable sources and are believed to be accurate. All put/call information may not be displayed and Wiley Bros.-Aintree Capital assumes no responsibility for such undisclosed features or omissions. All are subject to market conditions and/or prior sale.*

# Consider Converting to a ROTH IRA Now

ROTH individual retirement accounts (IRAs) offer some significant tax advantages over traditional IRAs:

- While contributions to ROTH IRAs are not tax deductible, earnings are withdrawn free from federal income taxes for qualified distributions. Contributions can be withdrawn anytime on a tax-free and penalty-free basis.

- You aren't required to withdraw funds from a ROTH IRA, even after age 72. If you don't need the money, the balance can continue to grow on a tax-free basis.

- ROTH IRAs can provide a tax advantaged way to accumulate assets for beneficiaries. Both traditional and ROTH IRAs may be subject to estate taxes. However, the beneficiaries of a traditional IRA must also pay income taxes on the proceeds, while beneficiaries of a ROTH IRA receive qualified amounts free from federal income taxes. This advantage is even more important now that the SECURE Act requires most beneficiaries to withdraw all funds from an inherited IRA within 10 years, rather than over their life expectancy.

A ROTH IRA conversion involves taking funds from a traditional IRA, paying tax on any previously untaxed funds, and then putting the funds in a ROTH IRA so that you can have tax-free income in retirement. Once the balance is converted, qualified distributions cannot be made until after the five-tax-year holding period, Distribution before then are subject to the 10% federal income tax penalty, unless one of the exceptions applies.

Transferred amounts must be included in income if they would be taxable when withdrawn (i.e., contributions and earnings in traditional IRAs and earnings in nondeductible IRAs), but are exempt from the 10% federal tax penalty. While there are many factors to consider before converting, a major factor is the ability to pay the income taxes from the conversion.

Recent declines in stock prices, however, mean that converting now would result in a lower tax bill. For example, assume that you have a traditional IRA with $200,000 in stocks (all taxable). If you are in a 32% marginal tax bracket, converting would have resulted in a tax bill of $64,000. Now, however, your balance has declined by 30% to $140,000. Converting now would result in a tax bill of $44,800, reducing your tax bill by $19,200. (This example is provided for illustrative purposes only and is not intended to project the performance of a specific investment).

The stock market may have given you added incentive to convert to a ROTH IRA. If you'd like to review the specifics of your situation, please give us a call.

## A Note from Allie

I hope everyone has adjusted to quarantine and is doing well and staying safe! To be honest, having to adjust to the new normal of social distancing and staying at home was a challenge for me at first. My husband, Jack, and I are usually very active travelers and, on the road, or in the air most weekends. Whether we are traveling for a friend or family wedding, visiting my in-laws, heading to the lake, or my favorite, a beach vacation, we are always on the go!

Having not travelled since the first weekend of February is quite a change of pace for us. We, like everyone else, have had to cancel plans and stay at home. Although stuck at home, we've still been able to catch up with friends and family through weekly video calls and attend events virtually. My 90-year-old grandfather has even learned to use FaceTime! This situation may not be ideal, but we are thankful to be making it work. Stay well!

## A Note from Sarah

It's currently week six of working from home in this crazy time. I never expected stay-at-home and working remotely to last this long, but here we are. Since our last newsletter, the girls basketball teams that I coach played in their end of season tournaments. I am happy and proud to report that both my fourth and fifth grade teams made it to their championship games! Alas, neither team was able to capture the first place trophy, but the girls worked so hard and there is always next year! As for me, I am sad that basketball season is over and even sadder that all spring sports were canceled. I, like many of you, am trying to make the most of my stay-at-home order by taking walks with my sister and going on runs around our neighborhood. My sister, Tate, and I actually walked a marathon a few weeks ago. We mapped out a route for 26.2 miles around Nashville including downtown, 12th South, Green Hills, and Forest Hills. We started about 8:00am on a Saturday morning and finished in about nine hours (without training!). It was an interesting experience, but I definitely do not recommend walking that far to anyone who hasn't trained for it. Our legs were out of commission for about 48 hours after we finished. I hope everyone is staying safe and healthy and look forward to the time when life returns to normal. Hopefully soon!

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40 Burton Hills Blvd., Suite 350
Nashville, Tennessee 37215
Phone (615) 255-6431, 800-827-7862
Fax (615) 244-7646