Dear Clients and Friends,

We hope you and your families are keeping well and safe. The following are some reflections driven by the crisis experience, thoughts on the markets, current portfolio themes, a review of recent government relief efforts that may have implications for your finances, and an update on some administrative items.

Crisis Reflections

When we think back on the last couple of months, one of the things that strikes us most strongly is the speed at which this crisis unfolded. The thought of closing restaurants was hard to believe until it happened. The same for "social distancing" and then "self-quarantining" and then wearing masks in public, all things that would have seemed unbelievable only a short time ago. Many businesses and jobs that were thriving in February were gone by the second half of March with many of them likely lost permanently. And even more unsettling, we probably all know people who were well one day and then only a few days or weeks later were very sick and, in some cases, dead.

This crisis has reminded us that we often have little control over how our lives will evolve and sometimes there is virtually no opportunity to adjust in time to deal with changes. That is why it is so important to have plans in place "just in case".

In your financial world, these plans should include a number of essential things that will prepare you and your loved ones for virtually anything that may come along:

1.) Appropriate investment allocation within a balanced portfolio: The unprecedented speed of the decline in stock prices in February and March left little time to react. For those people who had thought through their allocation to stocks and fixed income and alternatives like gold when markets were calm and what the implications would be during the inevitable bear market would not have eliminated losses but would have been prepared for the outcome. Further, high-quality bonds and gold have performed very well this year which has served to cushion losses in stocks.

2.) Adequate life insurance: In the event of the premature passing of a spouse or parent, life insurance can mean the difference between the surviving family members being able to maintain their lifestyle or not. An appropriately sized death benefit can be used to replace income, pay off debts, and pay for higher education costs for children and grandchildren.

3.) Trust and estate plan: Optimally structuring the ownership of your assets and deciding who will make critical healthcare and financial decisions for you can save you and your survivors significant time, money, and emotional stress in the event of your incapacity or death. These decisions need to be spelled out in the appropriate legal documents to ensure they are valid when needed.

4.) Virtual storage system for essential documents: Having the appropriate legal documents in place is great, but if no one knows where to find them in a moment of crisis, then they will not serve much use. Using an

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encrypted cloud-based storage system that you, your family, and/or your advisor can access from anywhere can save valuable time at critical moments.

BRAVE's mission is to help you secure your and your family's future. Please let us know if we can assist you in getting any missing aspect(s) of your plan in place.

Market Thoughts

We believe that the bear market low in stocks was set on March 23; however, we are not looking for further material upside from current levels without first experiencing a meaningful correction. We had been cautious on equity markets coming into 2020 because we thought valuations were stretched and sentiment among investors showed a high degree of complacency. Those conditions changed dramatically between mid-February and late March as the S&P 500 declined by 35% and panic among investors and the general public became palpable. Since the low on March 23, the rally in equity markets has taken them back to levels that once again make them expensive on virtually every metric except relative to interest rates. However, what is different now versus conditions that prevailed prior to the selloff is that investors appear skeptical of further gains and fiscal and monetary policy has become even more supercharged. We expect that these competing influences will eventually be resolved to the upside for risk assets.

The S&P 500 index is currently trading at 19.9 times forward earnings estimates. Earnings estimates have been coming down in recent weeks, but we expect that they will continue to decline meaning that the true P/E multiple is likely even higher. This multiple is up from around 13.0 at the March 23 low and 18.8 at the February all-time high.

The market is also expensive on a longer-term basis. **Chart 1** shows the current CAPE (Cyclically Adjusted Price to Earnings Ratio) relative to the last 90 years of history. This measure attempts to account for inflation and compares current prices to a multi-year measure of earnings. Stocks have been this richly valued by this metric only two other times in the last 90 years. Warren Buffett's favorite measure of overall stock market valuation levels (total market capitalization relative to Gross Domestic Product) tells a similar story (**see Chart 2**).

The only comparison by which the stock market continues to look attractively valued is relative to interest rates. The 5.0% earnings yield and 2.1% dividend yield of the S&P 500 index are at or near all-time extremes relative to the 0.6% yield on the 10-year U.S. T-note (**see Chart 3 and 4**).

Despite the significant recovery rally, investor sentiment appears to have remained relatively muted. In the latest American Association of Individual Investors weekly survey, the percentage of Bulls was at only 30.6% versus the percentage of Bears at 44.0%. Perhaps one of the most compelling signs of continued caution is the high levels of cash balances that investors are holding. Money market fund balances have experienced a $500 billion increase since the stock market's low in March. A recent survey of global fund managers showed that they were holding their highest cash balances in almost 20 years.

Chart 1: Long-term Historical Cyclically Adjusted PE Ratio with Recessions

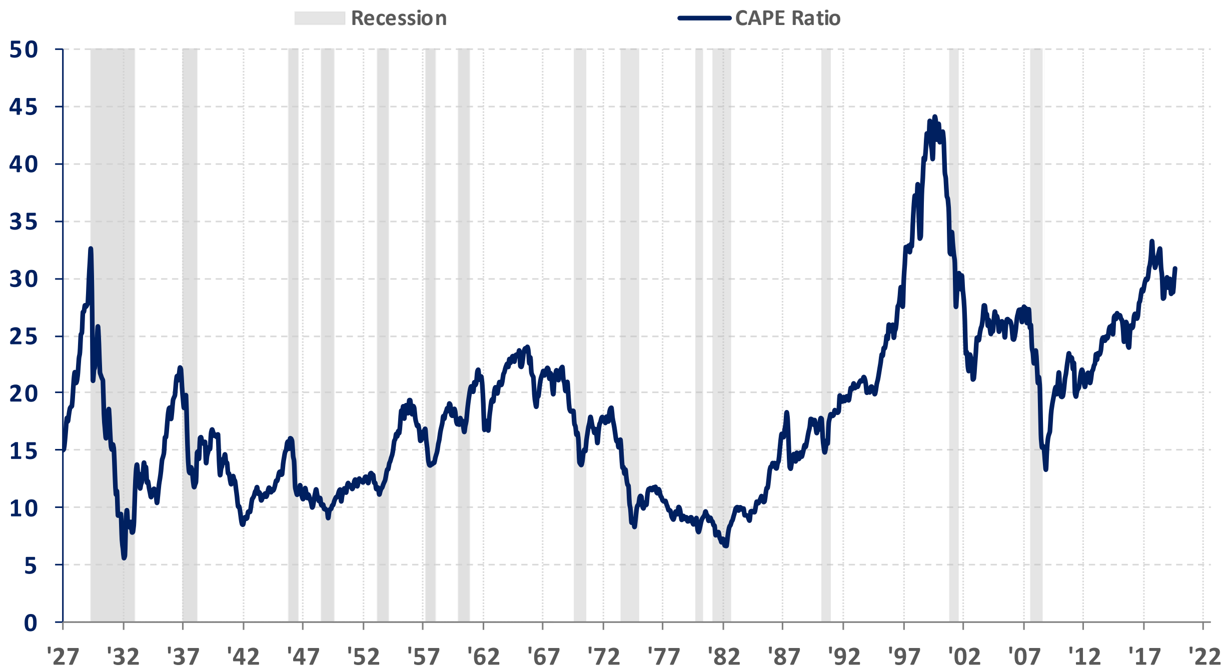


Chart 2: Wilshire 5000 Total Market Capitalization to US Annual GDP

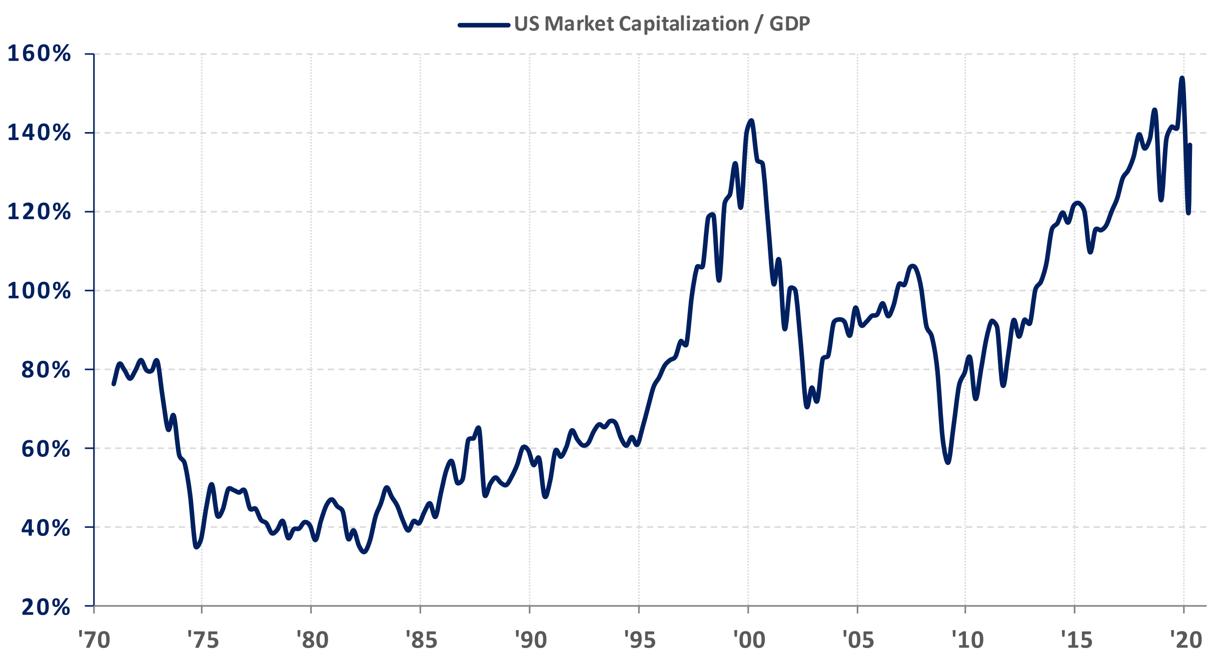


Chart 3: S&P 500 Dividend Yield and 10 Year Treasury Yield

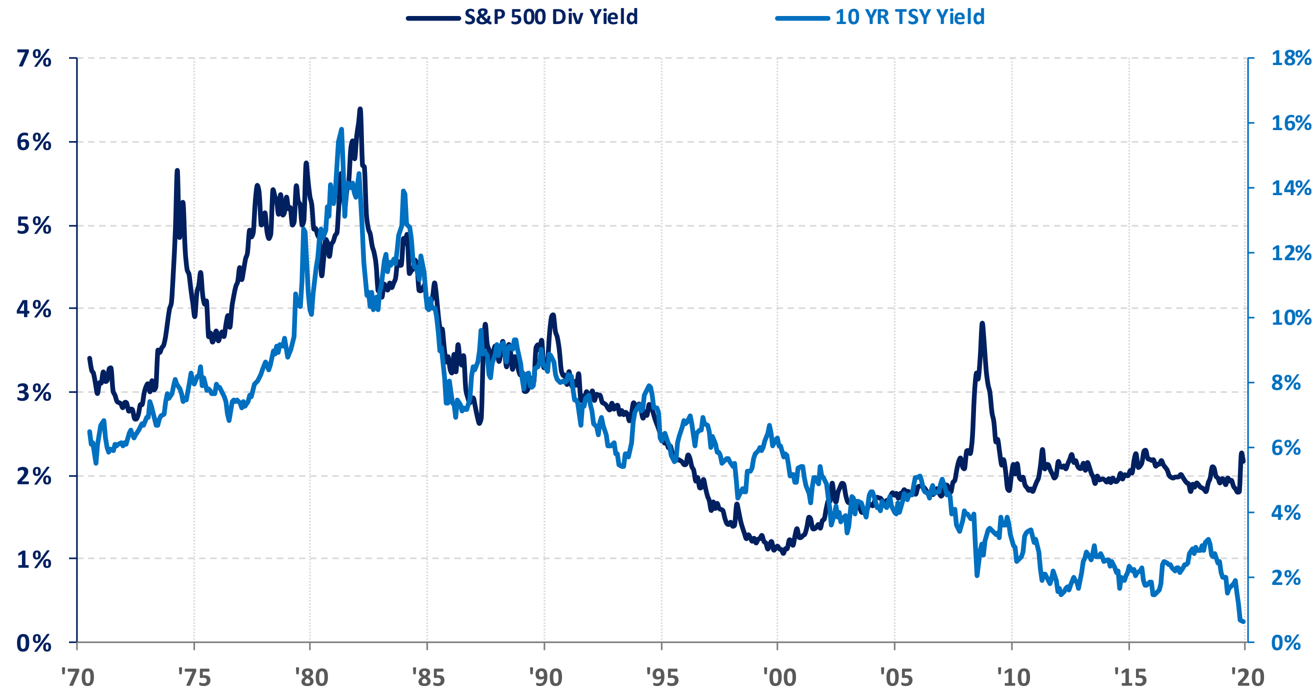
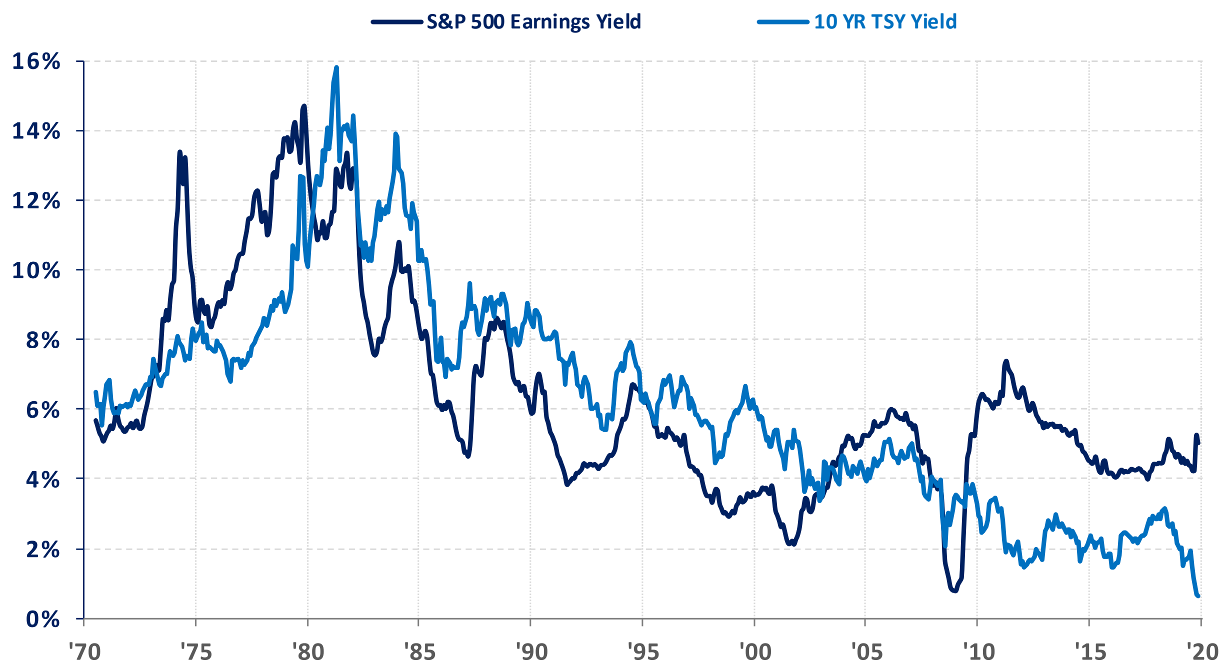
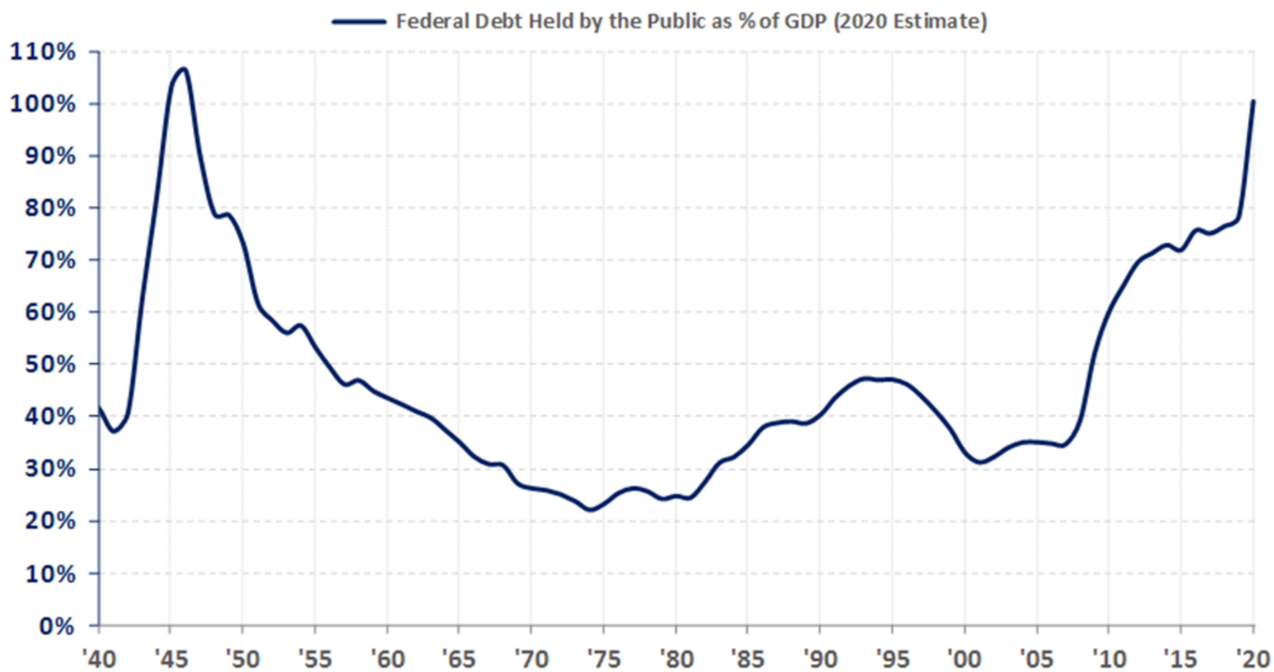


Chart 4: S&P 500 Earnings Yield and 10 Year Treasury Yield



Obviously the fiscal and monetary backdrop has gotten even more supportive for asset prices over the last six weeks as the President and Congress have worked to pass several relief packages and the Federal Reserve has gone "all in". There has been over $2 trillion dollars of fiscal spending approved over the last month and the Federal Reserve's multiple programs could amount to as much as double that figure. The long run implications for economic growth and the burden on future generations of this country's runaway debt level are troubling (**Chart 5**). However, just as happened coming out of the 2008-09 recession, this liquidity will likely find its way into financial markets before being needed by the real economy.

Chart 5: Federal Debt Held by the Public as Percent of GDP



Portfolio Themes

After getting more defensive starting in the fall of last year, we began to redeploy cash back into risk assets beginning in mid-March. We have added to equities several times, although most accounts are still well below their target equity allocations. Despite growth stocks remaining at an extreme valuation level relative to value stocks, we expect that growth stocks generally and growth stocks with excellent balance sheets in particular are going to continue to outperform in the slow-growth environment that is likely to prevail for an extended period of time.

Holdings of gold for most clients are now the equivalent of 10-20% of their equity component. There are times to own gold and there are times to not own it. Our conviction that we remain in a period in which gold has an important role in investment portfolios has only grown in light of government actions in recent weeks. The Federal Reserve can print more money, but they can't print more gold!

We continue to believe that we are in a low growth and low inflation global environment as demographics and debt levels constrain potential growth rates possibly on a permanent basis. As a result, we maintain that fixed income holdings should remain in very high-quality issues and with longer than benchmark average duration.

Relevant Components of Coronavirus Relief

The federal government enacted far reaching measures last month in an attempt to provide financial relief to the American people and businesses from the Covid-19 crisis.

There are many provisions within the various programs, but we attempt to summarize those aspects that we believe may be most relevant:

1. Forgivable loans to small businesses – The Coronavirus Aid, Relief and Economic Security (CARES) Act includes the Paycheck Protection Program which provides businesses with fewer than 500 employees access to $660 billion in loans. Loans are limited to the lesser of $10 million or 2.5 times average total monthly payroll costs (with a few limitations). The repayment term of the loans is 2 years and the interest rate cannot exceed 1.0%. ***Importantly, if the loan proceeds are used for payroll, utilities, and rent/mortgage interest during the first eight weeks after the loan is issued and pre-crisis employment levels are maintained, then the loan can be forgiven on a tax-free basis.*** The loans will be processed through the Small Business Administration (SBA) 7(a) loan program and administered by the banks. The SBA is expected to provide additional details on the loan forgiveness process.

2. Expansion in unemployment benefits – The CARES Act also provides $250 billion to expand the eligibility and amount of unemployment benefits. Workers will receive an additional $600.00 per week for up to four months in addition to the amount they receive from their states. Further, self-employed workers and independent contractors are now eligible to receive unemployment benefits.

3. Extension of 2019 tax filing date to July 15 – The U.S. Treasury has extended the deadline for filing 2019 tax returns to July 15 from April 15. This change also applies to the deadline for making 2019 contributions to IRAs and Health Savings Accounts.

4. Waiver of RMDs for 2020 – The CARES Act includes a provision that eliminates the requirement to take minimum distributions during 2020 from retirement accounts. This waiver also applies to account owners who turned 70 ½ last year and are required to take their 2019 distribution by April 1. This waiver will allow those account owners who do not need the money to avoid taking a distribution from their accounts and incurring the ordinary income tax burden.

Administrative Items

With estimated tax payments for the first and second quarters of 2020 and the filing of 2019 tax returns all due on July 15, please let us know if you will need funds from your investment account as early as possible so that we can be sure to get them to you in plenty of time.

There are some changes regarding retirement account contributions for 2020 that we want to bring to your attention. The maximum deductible contribution for 401(k) plans was increased $500 to $19,500 and the “catch-up” contribution if you are over 50 years of age was also increased $500 to $6,500. The annual limit for self-employed participants in a SEP IRA or solo 401(k) was increased to $57,000 from $56,000. The limit on traditional and ROTH IRAs remains the same at $6,000 plus a $1,000 “catch-up” contribution if you are over 50.

If you have not yet set up your online access to our client portal, please let us know and we can assist you with that.

As always, we welcome your comments and questions. Please don’t hesitate to call, visit or email at any time.

Your team at the BRAVE

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