efficient
MARKET ADVISORS
A BUSINESS OF CANTOR FITZGERALD INVESTMENT ADVISORS

Dear Investors & Financial Advisors:

Over the last few weeks, as the coronavirus has entered our lexicon, I've spent more and longer time on phone calls than ever before. Balancing the need to be in the weeds of managing the money with the needs of meeting client expectations for communication and reassurance have made for long days. This is the period where I both earn my keep and potentially add value to client portfolios. In years like 2019 when markets went straight up without a hint of volatility, I was like the Maytag repairman. And, my ability to add value to a portfolio was limited.

While you no doubt are focused on your own health and that of your loved ones, questions about your portfolio surely linger as well. Seeing headlines of stock market declines, fosters questions which you likely share with others. Some of those questions, left unchecked can take investors down a rather dark financial rabbit hole.

When equity markets experience heightened volatility, the fight-or-flight physiological reaction kicks in. Often when investors lack specific and detailed knowledge about their portfolios, they become far more susceptible to "flight" than "fight". In other words, the need for some sort of action may be driving them to sell their stocks now with the belief they can buy them back later after further declines.

This natural impulse misses a crucial element of market efficiency, which is that prices rapidly reflect investors' expectations about the future. But, based on my nearly 33 years in the investment industry, my experience tells me that those investors are seldom if ever successful. I well remember investors who pushed the panic button during the Gulf War, after 9/11 and during the 2008 financial crisis. My experience suggests these folks, bu their own hand, did serious damage to their portfolios.

I named my company "*Efficient Market Advisors*" in 2004 because I wanted to communicate my belief that markets quickly reflect investor expectations. So, when someone calls me concerned that Goldman Sachs expects the U.S. economy to shrink by an annualized 34% in the second quarter while unemployment jumps to 15%, I must dispassionately recognize that this is already "priced in" by the markets. It's hard to imagine the outlook getting worse than that, but it would need to in order for markets to price in an even worse scenario.

Even in a drawn out recession, it's almost impossible to get back in early enough after an emotional sell decision to make a difference. After bear markets, equity prices tend to pivot and turn on a dime. When it starts to "feel safe" or "calm" to investors the market has already made the lions share of the recovery in terms of percentage gains. Next, investors often regret missing the bottom, remaining on the sidelines for too long. They wait for markets to bounce on the bottom a near impossible task.

During times of heightened volatility, the temptation to time the market is the greatest. History shows that this all-in or all-out mentality generally leads to disappointing results. In my three decades of investing, I've seen countless presentations by highly tactical managers who claim to be able to avoid the downturns in the markets. To date, I've not seen one that is anything but a hollow mockery.

The other common fear today is from investors concerned about whether or not they have the time to wait for their portfolio to recover. If your strategic allocation (your stock-bond-cash-alternatives mix) was properly set for your time horizon and your distribution needs, the answer is yes. Take a classic 50% stocks / 50% bonds portfolio kicking off a 4%

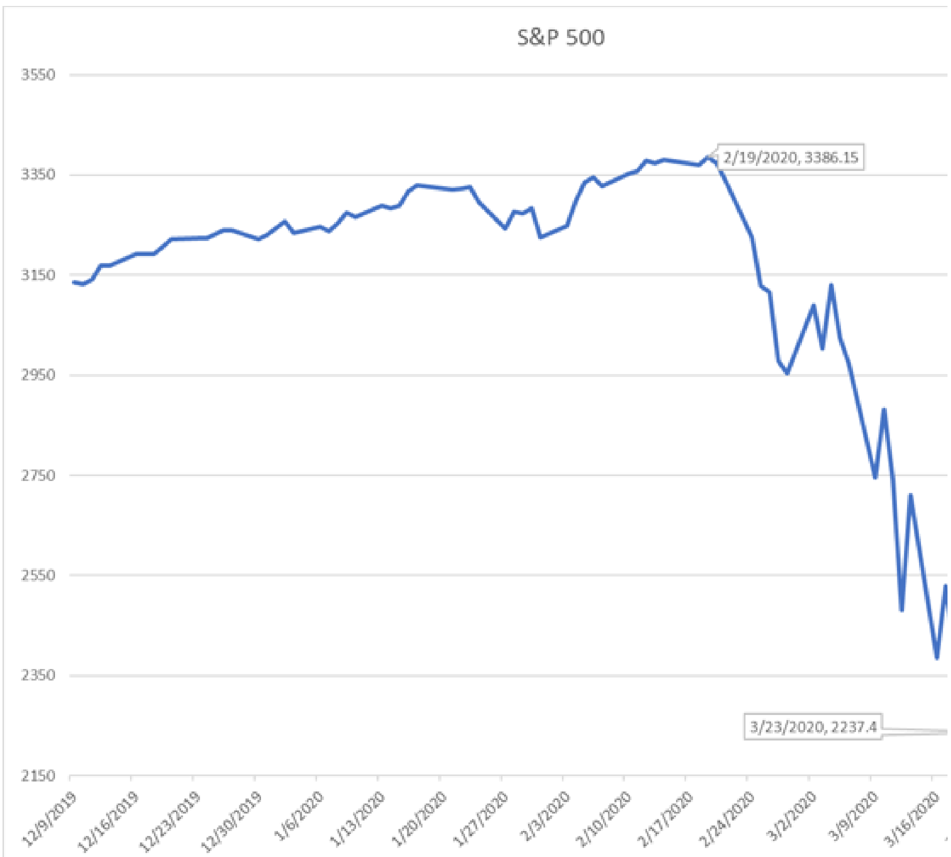
annual distribution. Despite the recent drop in asset prices (especially stocks), investors should not suddenly overweight the probability of portfolio failure in their psyche. The existence of fear is so strong today that I had a very experienced investor ask me about the likelihood of the stock market going to zero. Not an individual company, but the entire market!

The S&P500 reached an all-time-high on February 19th and dropped nearly 33% by March 23rd. Did investors lose 33%? Hardly. First, the odds of an investor making their one and only investment exactly on February 19th, and exactly at that one tick of the SP at 2991.48 are low, but try coupling that with making their one and only sell on March 23rd at the eye-blink print of 2237.4. The reality is that during our working lives we accumulate shares over many decades at many different prices. And, during our retirement years we sell off a very small amount of our equity shares (in addition to taking interest and dividends) each month to fund our retirement. So, how relevant are those two S&P500 prints really? They aren't.

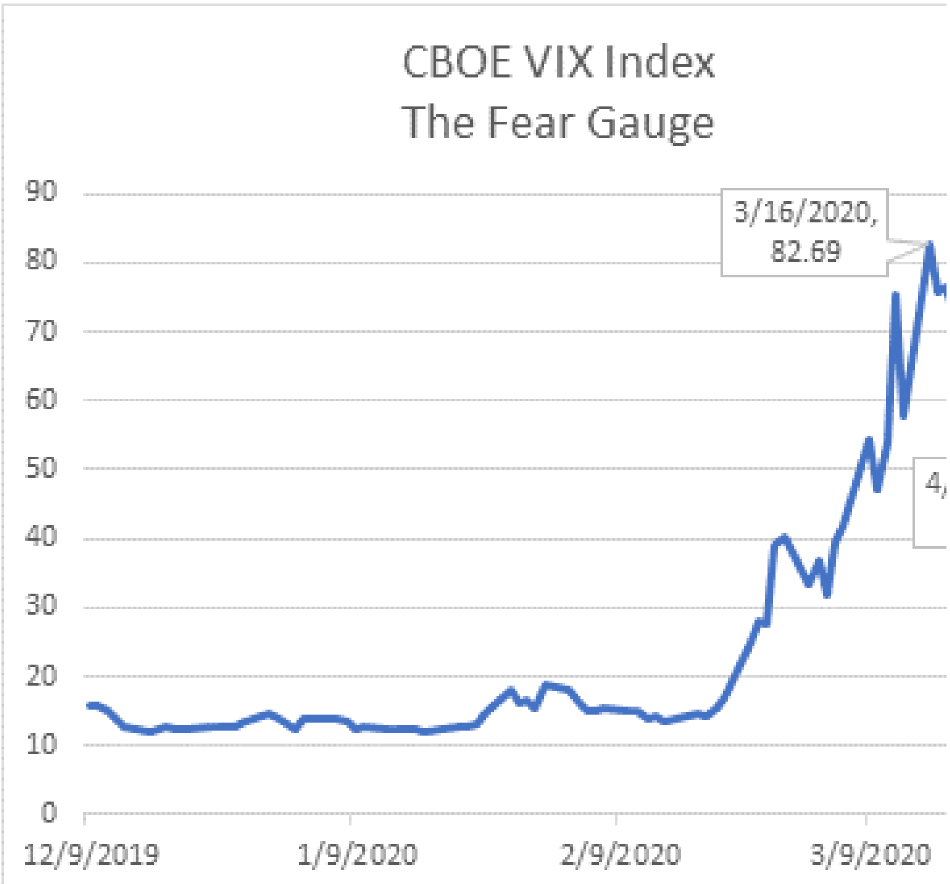
None of this should cause investors to think we are advising doing nothing at all, or just blindly putting our heads in the sand. To the contrary, we believe the value add of an active money manager manifests itself in these times. More specifically, the actions taken during a downturn should seek to minimize the recovery period in a portfolio after a significant drawdown like the one we have just experienced. For each of the EMA Time Series ETF based portfolios we carefully track data on past "drawdowns" with a focus on the number of months to recovery. Our objective is to make the recovery period as short as possible.

We look at market drawdowns as temporary. That is, throughout the history of US stock markets each 20%, 30%, 40% or 50% drop in the past has been erased. We have no reason to believe the current drop won't also be erased. Of course, we have no reason to think we'll know exactly when the bottom is in either. Recognizing these beliefs, when your asset allocation migrates from its strategic targets, we take action. We have added equity to portfolios on February 27th and March 12th through tactical rebalances. We've been waiting for a 10% decline from March 12th levels. If we get one, we'll likely enact another tactical rebalance. That decline will be gut wrenching to watch, but it may also be the period we look back on as having added the most value in our expected subsequent recovery.

Now, just for the sake of discussion and thinking out loud. Do we think the market bottom already happened? The short answer is maybe. The most recent bottom occurred on March 23rd, which was prior to massive fiscal action by the United States, and the market rallied 17.5% off that bottom. To me, this seems like consolidation around the 2450 level.



Another indicator which may suggest a bottoming process is the CBOE Volatility Index or VIX. The VIX is colloquially known as the "*Fear Gauge*" amongst professional investors. Often, the height of fear is within days or weeks of the bottom of stock market rout. The VIX peaked at 82.69, one week before the market bottomed. Since then, the VIX has been in a steady decline to 54.



Please keep in mind that everyone at EMA is fully engaged during this period. Much of our staff is working remotely. We are well equipped with video conferencing technology and are more than happy to engage with you during this difficult, but transitory bout of market volatility.

Herb W. Morgan
Sr. Managing Director
Chief Investment Officer

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