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TO: VZD CAPITAL MANAGEMENT, LLC

FROM: Ethel J. Davis
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SUBJECT: MARKET CARNAGE DUE TO OIL FEARS AND CORONAVIRUS

I am writing to discuss the fall of the stock market today after many sell-offs transactions that occurred in recent weeks. The S&P 500 closed down 7 percent today, which was the worst since December 2008. This downturn is due to the rise of the coronavirus or Corvid-19 that disrupted the domestic and global economies, creating a tsunami on Wall Street. Such decline marked the most significant one-day drop for the Dow Jones on record and the most significant single-session loss since 2008. When the market open this morning and the indices were evaporating significantly, and such movement caused the circuit breakers to kick in to halt trading for 15 minutes. If the market free falls below 13 percent, then the market is suspended again, and at 20 percent or below, the market closes for the day. The purpose of the circuit breakers is to slow up trading for a few minutes and allow investors to digest the rationale behind such steep declines. The circuit breakers were put into place after the stock market crash on October 19, 1987, aka Black Monday. The rapidly declining opening today was attributed to the spread of the coronavirus plus the 30 percent decline in oil prices. The steep decline in oil was artificially created by the Organization of Petroleum Exporting Countries(OPEC's) failure to set production levels, and Saudi Arabia's stand down with Russia, which is the third-largest oil producer in the world (after the United States and Saudi Arabia).

The growth rate of the U.S. economy had already been slow and decelerating due to rising debt levels. There are many questions investors are asking, such as "how profound and how long will the shock wave last?" Will this be the worst epidemic since the Spanish Flu? Can we expect to see some degree of stability before summer? With all the uncertainty, could this be the start of another recession, kickstarting the vicious cycle of high unemployment and debt defaults? Or could the United States avoid recession as it did during the slowdowns of 2012 and 2016?

Regrettably, the bond market is extremely bearish with a sharp plunge to record low rates on long-term Treasury notes and bonds, pricing in multiple interest rates cuts by the U.S. Federal Reserve. Believe it or not, that bond yields began their plunge back in mid-January, and then pushed another leg lower in mid-February. The equity market received the memo and didn't peak until late February. The notice is that no sector of the market has been spared from this turbulent season. If you are wondering what is the strategy to resurrect this aftermath from this blood bath day, than you are not alone.

As you know, your financial health is my number one priority. The goal is to minimize risk and continue to grow despite market circumstances or cyles. However, sometimes all the babies get thrown out of the bathwater, which seems to be the case, currently. We are repositioning by taking long-term profits, selling positions within the energy and consumer discretionary sector, and increasing the cash reserves. Now is the time to purchase consumer staples such as Clorox (CLX), Proctor, and Gamble (PG) and increase the high-grade preferred stocks to strengthen the income orientation.

One of the most frequent questions asked is, "what should I buy or sell?" The market has swung from an environment that made it difficult to buy at a discount to everything that is on a clearance rack. I have prioritized the shopping list, first by need and value, to ensure there is potential for growth during this challenging market. Next, dollar-cost averaging is essential throughout this season of increased volatility. Remember, when we rebalance due to a high level of anxiety in the market, we will buy in small bites until we reach a full position, which is 3 percent for most investors. No one can predict the market's bottom or top, therefore, averaging in small bites over days and months will help achieve a reasonable overall price.

There are a few real estate investment trusts (REITs) that had strong earnings with dividends over 7 percent, yet was unable to avoid being pulled down with the market. With a yield of 7 percent makes this a tremendous monthly-paying dividend growth investment to have allocated into income and growth portfolio. The cash equivalent sector does not have short-term instruments that are yielding anything remotely close to what REITs can deliver without being locked into for a longer duration. I fully expect the Federal Reserve to cut the target rate again, and this will be very bullish for cash flows from such agencies. REITs thrive on accommodating Federal Reserve and will dramatically outperform in 2020, which will keep our income flows higher than most dividend producing equities.

Please know I will be calling each household to answer any questions or concerns you have during this uncertainty season. While I realize it is a difficult period and there are so many catalysts going into the election season until slow and steady is our "motto" for now. Thank you in advance for the trust and confidence you have placed in the firm.

We look forward to visiting with you during this challenging time.