Churchill Management Group

Monthly Market Update

February 28, 2020

TACTICAL STRATEGIES

PREMIER WEALTH TACTICAL & PREMIER WEALTH TACTICAL CORE

It was an unprecedented week in the markets to finish February. Coronavirus fears panicked investors and stocks took a dive. At the close on Friday, the S&P had fallen 13% off its highs, the Dow 14%, and the Nasdaq 13%, almost all in just seven trading days.

It was the fastest 10% plus drop from market highs in history. It was the farthest the market had fallen off the highs without a bounce since the collapse in 1929. On our Friday morning investment call, our Chairman Fred Fern said, "I've never seen a market fall straight down like that without any technical warning." A significant observation from someone who has been one of the top investors since 1963.

It was just less than two weeks ago that we sent a webinar to our clients discussing how nothing seemed capable of bothering the stock market rally. Not trade talks, not impeachment, not election worries, and not even the Coronavirus seemed able to make the market uncomfortable. "Was the market too comfortable?" we asked.

The answer came fast. In the modern world of mass media, social or otherwise, fears of a pandemic escalated with extreme speed and markets sold off rapidly. The S&P is now down to the same level it was back in September of 2018, seventeen months ago.

In addition, while the fears over the Coronavirus certainly sparked the flame, there were other factors at play as well, such as the elevated price levels stocks had reached during their recent rally, and the more recent increased focus over the upcoming election. The combination has led to an intense and sudden selloff.

The big question for investors is whether this is a rather scary correction that is near its end, or the beginning of a "Black Swan" event for stocks that could lead to a recession and a Bear Market. Of course, it remains too early to tell as news surrounding the virus and its economic impact continues to come in.

However, to offer some perspective, as noted above, the market is currently 13% off its highs. In the 2008 Financial Crisis, the S&P fell over 54% off its highs. The same for the popping of the 2000 Tech Bubble, the S&P falling over 51% from its highs and the Nasdaq an incredible 78% in 2000-2002. Despite the recent pain, we are presently a long way from those types of declines. It should also be noted that none of those drops happened in one fell swoop. Each was a rather long process over many months.

In our tactical strategies, we added to our cash holdings this week by selling a couple of holdings. Should the market continue to proceed in a negative way, we will take action to get more defensive. In the meantime, we would expect plenty of volatility in both directions. These kinds of markets can also bring with them strong snapback rallies when the selling gets overdone. It is just difficult to know when and if they will be sustainable. As always, we will let the market tell us.

TACTICAL OPPORTUNITY

Given the turmoil, the portfolio has held its own. So far only minor sell signals, though the dust may be far from settled. One stock, ABBV, managed to be up for the month. Close monitoring is underway given the situation.

FULLY INVESTED

ETF SECTOR ROTATION

With the market down around 11% for the month, there was not really a lot of variance among the sectors. Real Estate held up the best, down six percent and energy, the worst, down fifteen percent. Eight of the eleven sectors were within plus or minus two percent of the index showing the breadth of the selloff. It was the same story for the broad markets. Growth continues to lead, but all categories, Growth/Value, Large/Mid/Small cap were within two percent of the broad index. Internationally, the Emerging Markets surprisingly held up better than the U.S.

EQUITY GROWTH AND VALUE

In a tough month for stocks, our portfolios held up relatively well. Nothing terribly out of the norm, and the early month tail end of the rally helped cushion the month end blow. The plan will be to look for opportunities to tax harvest where appropriate as well as to look for potentially oversold stocks to possibly swap in.

EQUITY DIVIDEND INCOME

There was no safe haven for dividend stocks as the global selloff hit all sectors hard. Our underweight in Energy did help to cushion the blow some. Yields for the portfolio continue to look attractive when considering that the 10 Year Treasury has fallen to an astonishing 1.15% level. As with Equity Growth and Value, tax harvesting and swapping where needed is expected.

For a full description of each strategy, please click here.

Best regards,

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