GKV Capital Management

Market Update

March 22, 2020

Coronavirus Impact

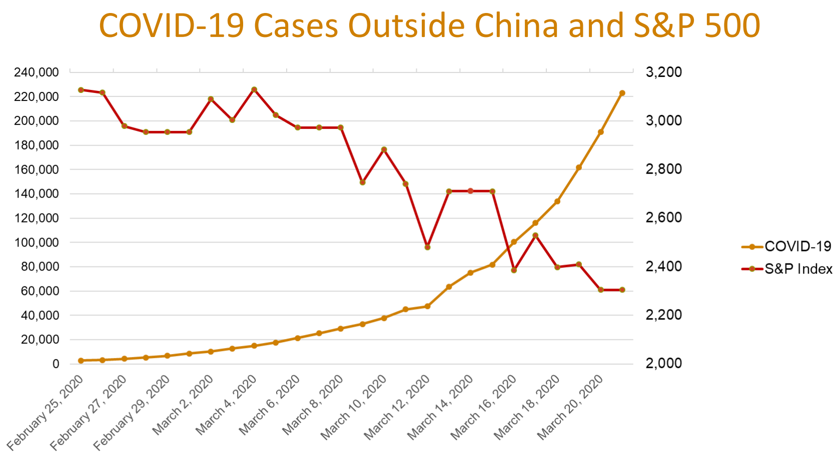
"The failure to prepare could allow the next epidemic to be dramatically more devastating than Ebola"

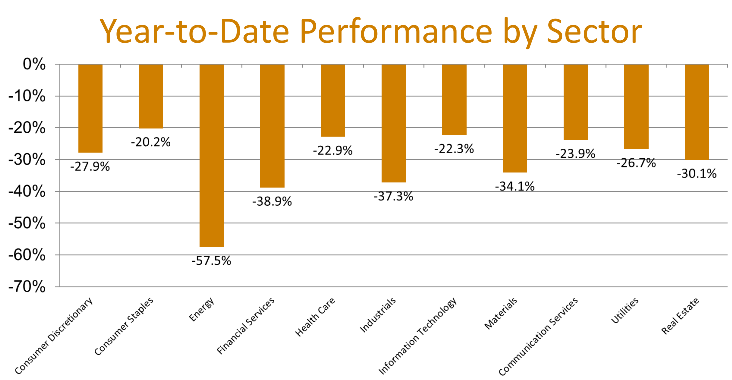
- Bill Gates, 2015 TED Talk

Here at GKV Capital, we thought it would be helpful to provide some perspective on the current investment outlook. Obviously, this is a very difficult time. Since late February we have been reducing exposure to stocks in anticipation of an economic slowdown due to the impact of the new coronavirus.

As the spread of the virus has accelerated, necessitating more extensive shutdowns, the economic cost has grown far beyond what we initially anticipated. Apparent containment in China and South Korea has created some optimism but the terrible toll in Europe and specifically, Italy has demonstrated just how bad widespread contagion of this virus can be. The new cases outside of China continue to grow rapidly and now exceed 225,000 at a growth rate of approximately 20% per day.

Plotting the growth in new COVID-19 cases against the performance of the S&P 500 you can see the stock market decline as the number of cases increases. The index has now declined nearly a third in value from the high on February 19th. One-third down in only a month is hard for us to fathom. The continued spread of the coronavirus has completely upended all business activity, destroyed sectors of the economy as commerce has ground to a halt. There will be an opportunity for recovery but there needs to be some clarity on how long businesses will be shut down and some indication of how impaired consumers will be. It took China 45 days of quarantined shutdown to bring down the rate of infection. Extrapolating that figure to here in the U.S. we would have roughly five weeks to go. It looks to get worse before it gets better.



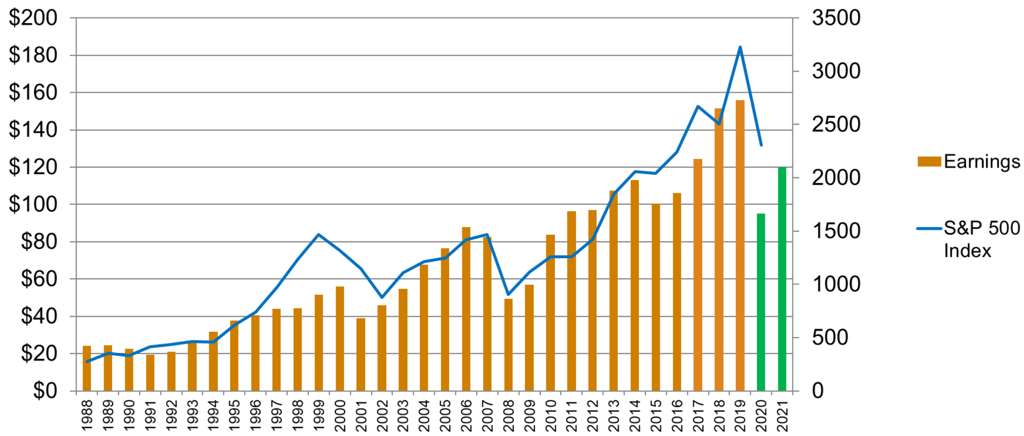


Revenue has completely dried up for whole industries. Hotels, airlines, cruise ships, restaurants, movie theatres. The energy sector, caught between a tremendous demand slowdown and a price war between Saudi Arabia and Russia has been decimated, down 58% year-to-date.

With considerably lower revenue and continued expenses, profits will be nonexistent for the duration of the shutdown and for a period after. Many elements of the economy will bounce back rapidly once we get back to work, but we do not expect revenue and earnings to simply return to pre-pandemic levels immediately.

The value of companies, the value of a stock is driven by earnings. The estimates for this year and next are being revised down substantially. There will be businesses that don't survive, jobs that are lost-reduced income and lost wages will have a lasting impact. The stimulus from both the Federal Reserve and the Administration will soften the blow. Talk of the stimulus package from Washington is as high as $2 trillion. That would total nearly 10% of our annual gross domestic product of $21 trillion. The stimulus can have a profound impact if enacted quickly and more importantly, targeted effectively.

S&P 500 Performance vs Earnings



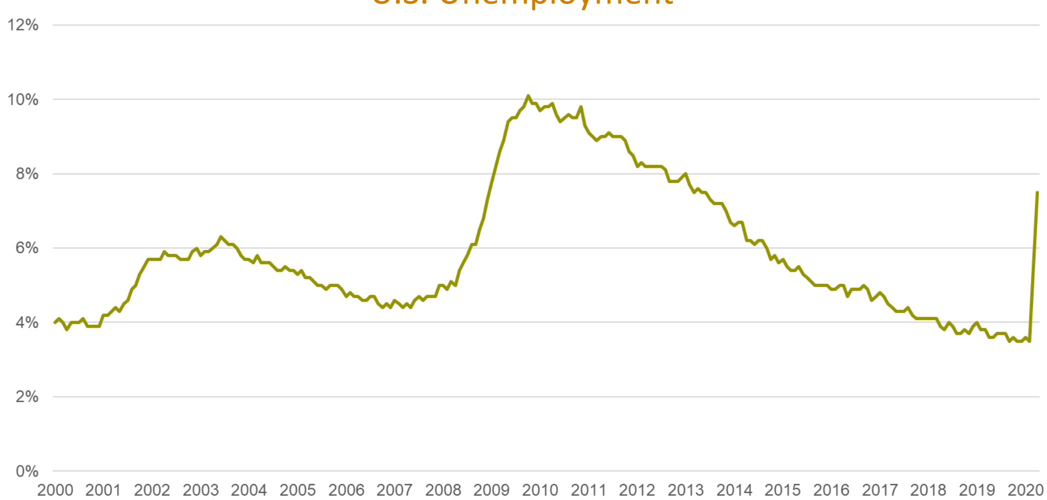
Early estimates assume that economic output will decline 20% for the first two quarters of this year. Some businesses, particularly many small businesses will have difficulty surviving. No business can last for long with no sales and continued expenses.

The market will be watching the unemployment numbers this week. They began to tick up last week, but the data now coming out will reflect more of the early impact of mass quarantine on employment. The preliminary forecasts for new unemployment claims are unprecedented. Maybe 2 million which would increase the number of unemployed by 35%, taking the rate to 4.7% from 3.5% and that's in just the first week.

We will recover. Looking into next year, the speed of recovery will depend on whether we can get everyone back to work or will many lost jobs take time to reabsorb. Since the 2008 recession our economy proved to be far more resilient than the rest of the industrialized world due largely to the American consumer. Low unemployment and strong household income enabled Americans to get out and spend, driving growth and profits which enabled more jobs. Like the rest of the market, we look forward to the opportunities lower stock valuations present. For now, as the shutdown continues, the economic damage is likely to get considerably worse before it gets better. We own few stocks and are holding significant cash in client accounts which we will put back into the market as opportunities present themselves.

In the meantime, we will make every effort to reduce contact and limit the spread of the virus. Our staff is working from home. Our phone system works seamlessly for both our Northern California and Southern California offices. We have video conference capabilities in our offices and would love to see you virtually if it helps. We know just how stressful things are. Focus on your health and we will continue to take care of your assets.

U.S. Unemployment



GKV
CAPITAL

Southern California
299 W Hillcrest Dr.
Suite 119

Northern California
1350 Treat Boulevard
Suite 260

Phone: 805-497-2616
www.gkvcapital.com
E-mail: greg@gkvcapital.com

Independent Investment Advisory

GKV Capital Management is an independent investment advisory firm registered with the Securities and Exchange Commission since 1975. We provide portfolio management services for our clients which include individuals, families, charitable trusts, corporations and retirement plans. We are in independent, fee-only advisor. We don not receive commissions and we do not sell any financial products. We have a fiduciary responsibility to put our clients' interest first.

Client accounts are separately managed and tailored to meet the specific needs, including risk tolerance, investment objectives, and tax consequences, of each client. Client assets are held at an unaffiliated brokerage firm.

With extensive expertise in security analysis, we make direct investments on behalf of our clients buying individual securities. This eliminates costly mutual fund fees and increases the flexibility to manage volatility. We actively allocate capital to take advantage of investment opportunities altering exposure to individual companies, industry sectors, and asset classes in anticipation of the changing investment and economic environment.

We are transparent in all facets of our asset management practice and believe it is important for our clients know what they own, why, what their performance is, and what they are paying in fees.

We build comprehensive portfolios for our clients with a goal of reducing volatility and producing prudent growth. We protect and build wealth at GKV Capital.

GKV Capital Management

Build Your Wealth to Fund Your Passions