# ELGETHUN CAPITAL MANAGEMENT

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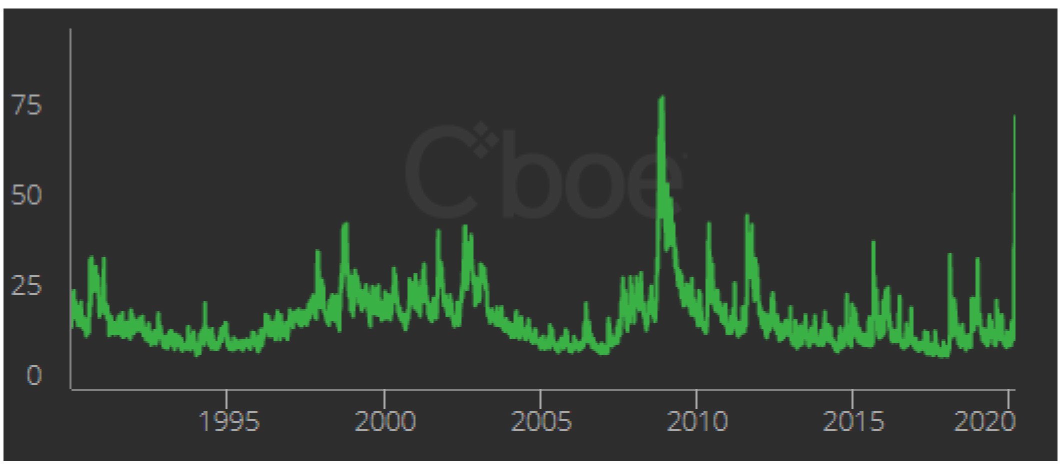
Market Update:

The bull market that started on March, 9, 2009 died yesterday. It was 11 years, 3 days old. Not only did the bull market end, it ended in dramatic fashion with the S&P 500 falling 9.5% and ending the day down 27% from its recent February peak. The Dow suffered its worst loss since 1987. Markets were freezing up and the New York Fed injected $1.5 trillion of liquidity into the repo markets to ease fears and help stabilize markets. It was the Fed's third injection in four days this week. This week will likely be the second most volatile week going back to the Great Depression. Only the week of October 2008 was more volatile, as measured by the CBOE's VIX or volatility index below.




Why have markets been so volatile? Obviously, the coronavirus (COVID-19) is a source, but I would argue not THE source. The actual source is **FEAR**. Whether COVID-19 ends up infecting and killing more people than current coronaviruses like H1N1 is hard to know. Remember in 2009 there was a novel coronavirus called "swine flu" or H1N1. It infected 11% to 21% of the global population and the WHO declared it a pandemic. H1N1 turned out to pretty mild with a fatality rate of .01 to .03%. It still killed 12,469 Americans and infected and estimated 60 million Americans in the first year (source: Washington Post). Now, H1N1 is just another category of influenza A, a virus that we all accept as a risk of life and the vaccine is included in typical flu shots. I'm not saying COVID-19 will be the same as H1N1 or downplaying the risks. Just saying this isn't the first coronavirus or the last. It's a real risk, especially for elderly or those with health issues. **From a market standpoint, the fear of the risk is often amplified to a level that overshadows the actual problem.**

**Here is what we're doing: buying equities.** We have been building cash for a couple years because valuations were high. Yesterday, we deployed about 35% of this cash into equities. It was a brutal day and markets were difficult to trade. Our traders were overwhelmed with panicked sellers trying to exit. We simply provided liquidity to forced sellers at a huge discount. It was the most volatile day of my career. We don't know if this is the bottom and we have more capital to put to work should markets continue to selloff. Some might say, "How can we buy when there is so much uncertainty?" That is a great question and certainly intuitive. Uncertainty is the author of opportunity. Find uncertainty, and opportunity is often lurking in the shadows. People (markets) hate uncertainty, in fact, they'll do almost anything to avoid it. But there is a difference between short-term uncertainty and long-term uncertainty and this is where to focus. We're operating with the following convictions:

1. This isn't the end of civilization
2. Consumers and businesses will get back to work at some point
3. This will not forever impact how we live
4. Innovation, creativity, and economics will again prosper in the future

We don't know the mortality rate, how many people will be infected, or if this will become part of the normal cold and flu season like H1N1. All these questions are important. They're just not important for long-term investors, assuming our four bullet points above are correct. That's a hard pill to swallow and counterintuitive to some, but long-term thinking is often counter to short-term thinking.

During volatile times when the market drops dramatically, we plan to buy broad-based, diversified index funds. These are easier to buy in difficult markets, but the main reason is we want to build a base of equities within all of our portfolios that can be held with an infinite time horizon. Many of our clients will not spend all their capital or are investing for the next 30 years or more. If we hold the equities for decades before spending the capital and/or pass them onto to the next generation (stepped-up basis – no tax) or charities, we can earn a tax-free return, from equities! I will write more on this "infinite" bucket in a later memo.

Thank you so much for your trust and confidence. During this market meltdown I've had only a handful of calls, most to ensure we're buying. I know huge swings in your net worth causes stress and emotional pain. Accepting and acknowledging emotions is a lot different than letting emotions consume and drive your actions and reactions. I'm convinced we have the very best clients in the world. Your trust allows us to operate and strategize amidst the volatility and noise. This allows us to execute, which certainly benefits everyone long-term. We will continue to work for you and execute with a long-term orientation and philosophy.

God Bless and stay safe!

John