March 2020

"If you wait for the robins, spring will be over." - Warren Buffett

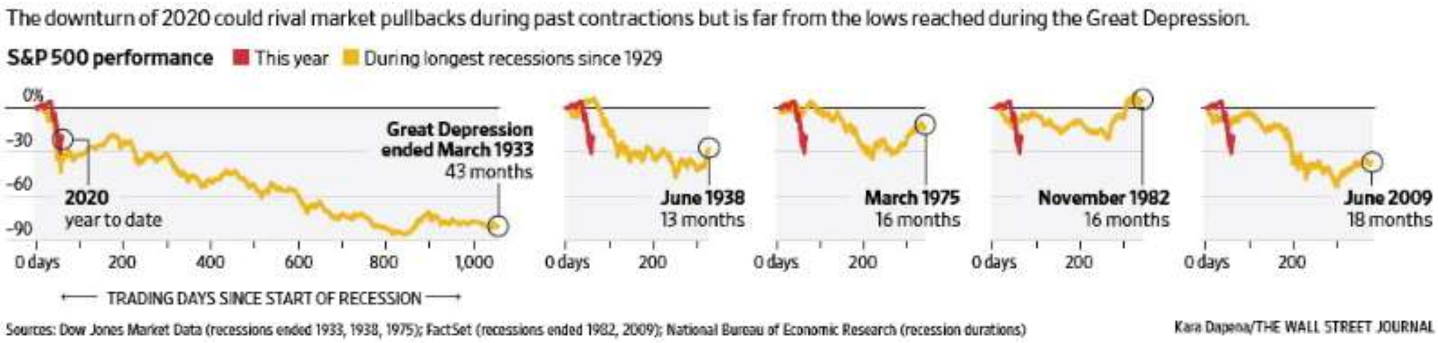
A History of Market Ups and Downs

S&P 500 Index total returns in USD, January 1926–December 2019

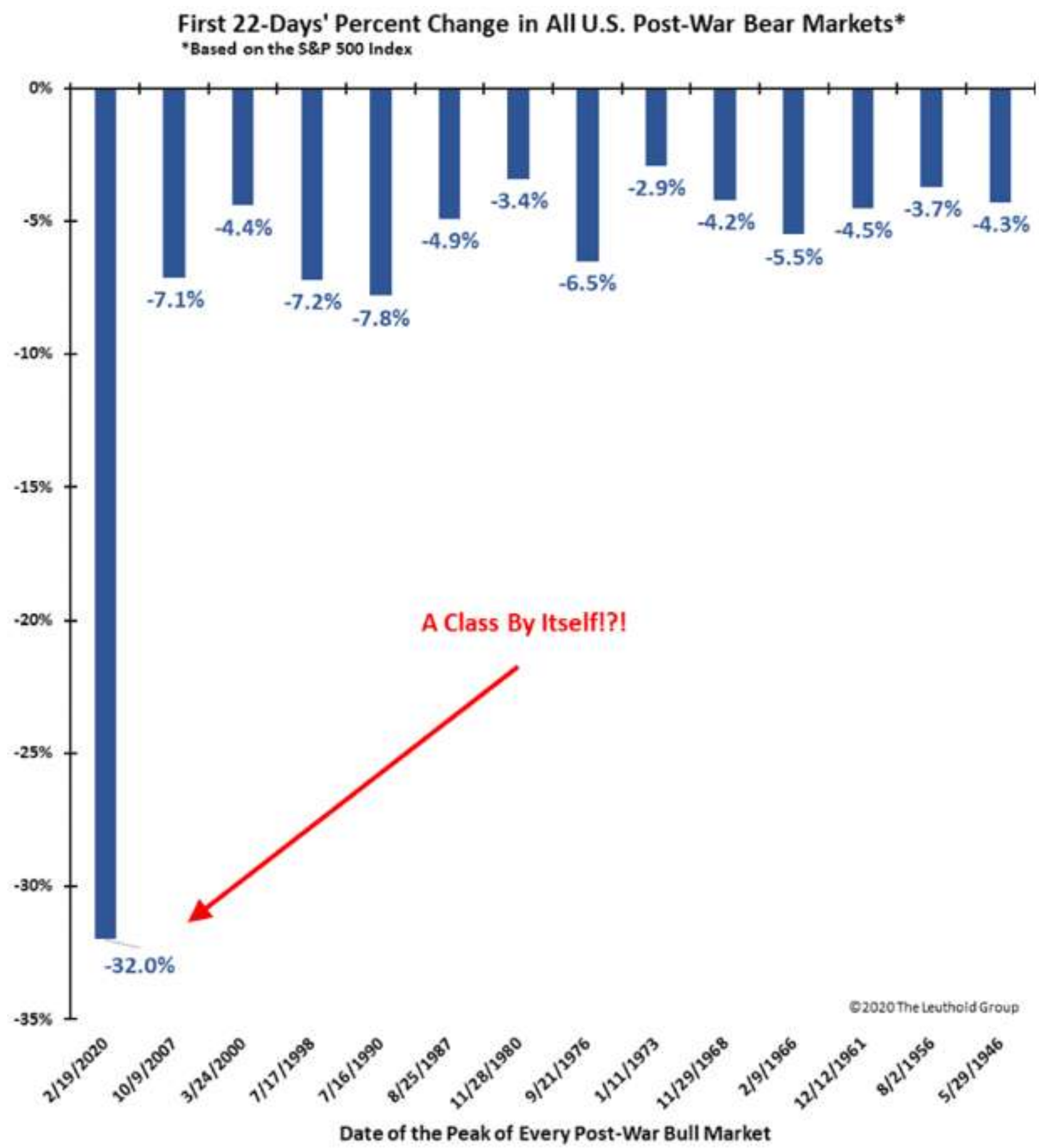
Using a 10% threshold for downturns

Chart end date is 12/31/2019; the last trough to peak return of 31% represents the return through December 2019.
Bear markets are defined as downturns of 10% or greater from new index highs. Bull markets are subsequent rises following the bear market trough through the next new market high. The chart shows bear markets and bull markets, the number of months they lasted and the associated cumulative performance for each market period. Results for different time periods could differ from the results shown.
Past performance is no guarantee of future results. Indices are not available for direct investment; therefore, their performance does not reflect the expenses associated with the management of an actual portfolio.
Source: S&P data © 2020 S&P Dow Jones Indices LLC, a division of S&P Global. All rights reserved.

From last weekend's WSJ:



From High Dividend Opportunities: Market Update - March 29



From Friday's Global Investment Strategy - Second Quarter Strategy Outlook:

I. Macroeconomic Outlook

The global economy is now in recession. The recession has occurred because policymakers saw it as the lesser of two evils. They judged, with good reason, that a temporary shutdown of most non-essential economic activities was a price worth paying to contain the virus.

Outside of China, the level of real GDP is likely to be down 1%-to-3% in Q1 of 2020 relative to Q4 of 2019, and down another 5%-to-10% in Q2 relative to Q1. On a sequential annualized basis, this implies that GDP growth could register a negative print of 40% in some countries in the second quarter, a stunning number that has few parallels in history.

Growth in China should stage a modest rebound in the second quarter, reflecting the success the country has had in containing the virus. Nevertheless, the level of Chinese economic activity will remain well below its pre-crisis trend, with exports increasingly weighed down by the collapse in overseas spending.

A One-Two Punch

The "sudden stop" nature of the downturn stems from the fact that the global economy was simultaneously hit by both a massive demand and supply shock. When households are confined to their homes, they cannot spend as much as they normally would. This is particularly the case in an environment of heightened risk aversion, which usually leads to increased precautionary savings. At times like these, businesses also slash spending in a desperate effort to preserve cash. All this reduces aggregate demand.

On the supply side, production has been impaired because of workers' inability to get to their jobs. According to the Bureau of Labor Statistics, less than 30% of US employees can work from home.

Since modern economies rely on an intricate division of labor, disturbances in one part of the economy quickly ripple through to other parts. The global supply chain ceases to function normally.

Think of this as a Great Depression-style demand shock combined with a category five hurricane supply shock.

The fact that both of these shocks have been concentrated in the service sector, which represents at least two-thirds of GDP in most economies, has made the situation even worse. During most recessions, the service sector is the ballast that helps stabilize the economy in the face of sharp declines in the more cyclical sectors such as manufacturing and housing. This time is different.

The Shape Of The Recovery: L, U, or V?

Provided that the number of new infections around the world stabilizes during the next two months, growth should begin to recover in the third quarter. What will the recovery look like? From the perspective of sequential quarterly growth rates, a V-shaped recovery is inevitable simply because a string of quarters of negative 20%-to-40% growth would quickly leave the world with no GDP at all. However, thinking in terms of growth rates is not the best approach. It is better to think of the level of real GDP.

... three scenarios: 1) An L-shaped profile for real GDP where the level of output falls and then remains permanently depressed relative to its longterm trend; 2) A sluggish U-shaped recovery where output slowly rebounds starting in the second half of the year; and 3) A rapid V-shaped recovery where output quickly moves back to its pre-crisis trend.

We had previously thought that the recovery from the pandemic would be V-shaped. Compared to the sluggish recovery following the Great Recession, that is likely still true. However, at this point, we would prefer to characterize the probable recovery as being more U-shaped in nature. This is mainly because the measures necessary to contain the virus may end up having to remain in place, in one form or another, for the next few years.

Why Not L?

Given the likelihood that containment measures will continue to weigh on economic activity, how can an L-shaped "recovery" be avoided? While such a dire outcome cannot be ruled out, there are three reasons to think "U" is more likely than "L".

Reason #1: We Will Learn From Experience

It is almost certain that we will figure out how to fine-tune containment measures to reduce the economic burden without increasing the number of lives lost. There are still many questions that remain unanswered. For example:

• Are restaurants where family members sit together really more dangerous than bars or conferences where strangers are milling about talking to one another?

• How dangerous is air travel? Modern airplanes have hospital-grade filtration systems that recirculate all the air in the cabin every three minutes. Might this explain why there has only been a handful of flight attendants that have tested positive for the virus?

• How contagious are children, who often may not present any symptoms at all?

• Which drugs might slow the spread of the disease or perhaps even cure it?

With time, we will learn the answers to these questions. We will also be able to stockpile masks, ventilators, respirators, and test kits – all of which are currently in short supply – to better combat the virus.

Reason #2: We Are Now Overcompensating For Lost Time

Second, most countries are currently at the stage where they are trying not just to bring down the basic reproduction number for the virus to 1, but to drive it down to well below 1. There is merit in doing so. If you can reduce the reproduction number to say, 0.5, meaning that 100 people with the virus will pass it on to only 50 other people, then the number of new infections will fall rapidly over time.

This is what China was finally able to achieve. A recent study documented that China succeeded in bringing down the reproduction number in Wuhan from 3.86 to 0.32 once all the containment measures had been implemented.

The critical point is that once you reduce the number of new infections to a sufficiently low level, you can then relax the containment measures by just enough so that the reproduction number rises back to 1. At that point, the number of new infections at any given point in time will be constant. ...

We are overcompensating to get the infection rate down. However, once the infection rate has fallen by enough, we can ease off the most economically onerous measures, allowing GDP to slowly recover.

Reason #3: Containment Measures Will Be Eased As More People Acquire Immunity

Much of the popular discussion of the epidemiology of COVID-19 has failed to distinguish between the basic reproduction number, R0, and the effective reproduction number, Re. The former measures the average number of people a carrier of the virus will infect in an entirely susceptible population, whereas the latter measures the average number of people who will be infected after some fraction of the population acquires immunity either by surviving the disease or getting vaccinated.

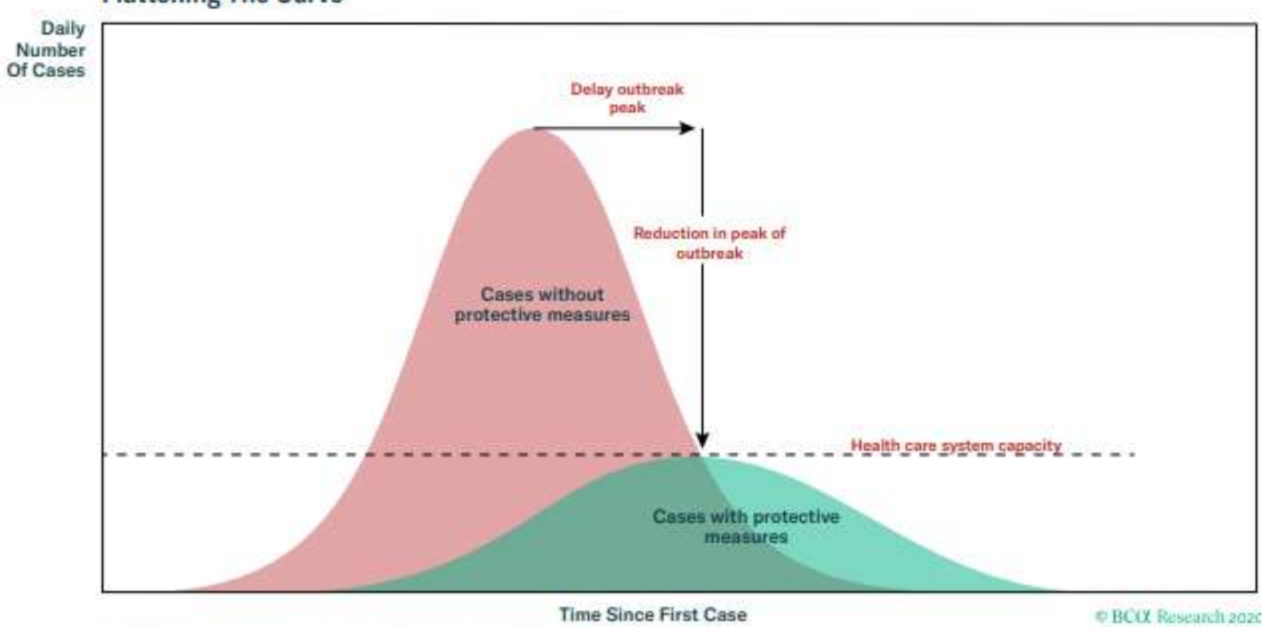
Mathematically, Re = R0*(1-P), where P is the proportion of the population which has acquired immunity. For example, suppose P=0.5, meaning that half the population has acquired immunity. In this case, the average number of people a carrier will infect will be only half as high as when no one has immunity.

As we discuss below, there is considerable uncertainty about how fast P will increase over time, including whether it could spike upwards if a vaccine becomes widely available. Still, any increase in P will make it more difficult for the virus to propagate. Over time, this will permit policymakers to raise R0 at an accelerating rate towards the level it would naturally be in the absence of any containment measures. Such a strategy would allow economic activity to increase without raising Re; that is to say, without triggering an explosion in the number of new cases.

The Virus Endgame

How long will it take to dismantle all the containment measures completely? This partly depends on what medical breakthroughs occur and what measures are needed to “flatten the curve” of new infections (**Chart 6**). Right now, most countries are trying to drive down the number of new infections to very low levels in the hopes that either a vaccine will be invented or new treatment options will become available. ...

CHART 6
Flattening The Curve



SOURCE: CDC (CENTERS FOR DISEASE CONTROL AND PREVENTION).

What if the virus evades the best efforts of scientists to eradicate it? In that case, the only way for life to return to some semblance of normalcy is for the population to acquire herd immunity. ...

To be clear, the virus’ ability to spread will decline even before herd immunity is achieved. An increase in the share of the population who survived and became naturally inoculated against the virus would allow policymakers to relax containment measures, perhaps to such an extent that ... would be enough to prevent hospitals from being overwhelmed. This underscores our baseline expectation of a U-shaped economic recovery.

Second-Round Effects

Suppose the global economy starts to recover in the third quarter of this year as the measures taken to compensate for the initial slow response to the crisis are relaxed, existing measures are better calibrated to reduce economic distress, and more younger and healthier people acquire natural immunity to the virus, thus reducing the vulnerability of the old and frail. Does that mean we are out of the woods?

Not necessarily! We still have to worry about the second-round economic effects. Even if the virus is contained, there is a risk that the economy will be so scarred by the initial drop in output that it will fail to recover. A vicious circle could emerge where falling spending leads to higher unemployment, leading to even less spending.

In the current environment, the tendency for unemployment to rise may be initially mitigated by the decision of a few large companies with ample financial resources to pay their workers even if they are confined to their homes. This would result in a decline in labor productivity rather than higher unemployment. That said, given the severity of the shock and the fact that many of the hardest-hit firms are in the labor-intensive service sector, a sharp rise in joblessness is still inevitable, particularly in countries with flexible labor markets such as the US.

Today's spike in US initial unemployment claims (a record 3.3 million, until this morning's 6.6 vs. a 3.1 est.) is testament to that point. In fact, the true increase in the unemployment rate will probably be greater than what is implied by the claims data because many state websites did not have the bandwidth to handle the slew of applications. ...

The Role Of Policy

Could we really end up in a world where the virus is contained, and people are ready and able to work, only to find that there are no jobs available? While such a sorry outcome cannot be dismissed, we would bet against it. This outcome would only arise if there is insufficient demand throughout the economy when it reopens.

Unlike in 2008/09 when there was a lot of moralizing about how this or that group deserved to be punished for their reckless behavior, no one in their right mind today would argue that the workers losing their jobs and the companies facing bankruptcy somehow had it coming.

What can policymakers realistically do? On the monetary side, policy rates are already close to zero in most developed economies. A number of emerging markets still have scope to cut rates, but even there, many find themselves not far from the zero bound.

That said, cutting interest rates right now is not the only, and probably not the most important, way for central banks to stimulate their economies. The global economy is facing a cash shortage. Companies are tapping credit lines at a time when banks would normally be looking to increase their own cash reserves. The mad scramble for cash has caused libor, repo, and commercial paper spreads to surge. And not just any cash. As the world's reserve currency, the dollar is increasingly in short supply. ...

Flood The Zone

The good news is that there is no limit to how many dollars the Federal Reserve can create. The Fed has already expanded the supply of bank reserves by initiating the purchase of $500 billion in treasuries and another $200 billion in agency mortgage-backed securities (MBS) since relaunching its QE program on March 15th. Further MBS purchases will be especially useful given that mortgage rates have not come down as quickly as Treasury yields.

The Fed has also dusted off the alphabet soup of programs created during the financial crisis to improve proper market functioning, and has even added a few more to the list, including a program to support investment-grade corporate bonds and another to support small businesses.

In order to ease overseas funding pressures, the Fed has opened up swap lines with a number of central banks. We expect these lines to be expanded to more countries if the situation necessitates it.

Using Fiscal Policy ...

While central banks will play an important role in mitigating the crisis, most of the economic burden will fall on fiscal policy. How much fiscal support is necessary and what should it consist of? ...

In the case of the US, suppose that annualized growth is -5% in Q1, -25% in Q2, and +10% in Q3 and Q4, respectively. That would leave the level of real GDP down 4% on the year compared to 2019. Assuming trend GDP growth of 2%, that implies an annual shortfall of income (consisting of wages and lost profits) that the government would have to cover amounting to 6% of GDP.

The $2 trillion stimulus bill amounts to 10% of GDP, although not all of that will be spent during the next 12 months and about a quarter of the amount is in the form of loans and loan guarantees. Still, on size, we would give it an “A”. On composition, we would give it a “B”, as it lacks sufficient funding for state and local governments to cover the likely decline in the tax revenues that they will experience. This could result in layoffs of first responders, teachers, etc.

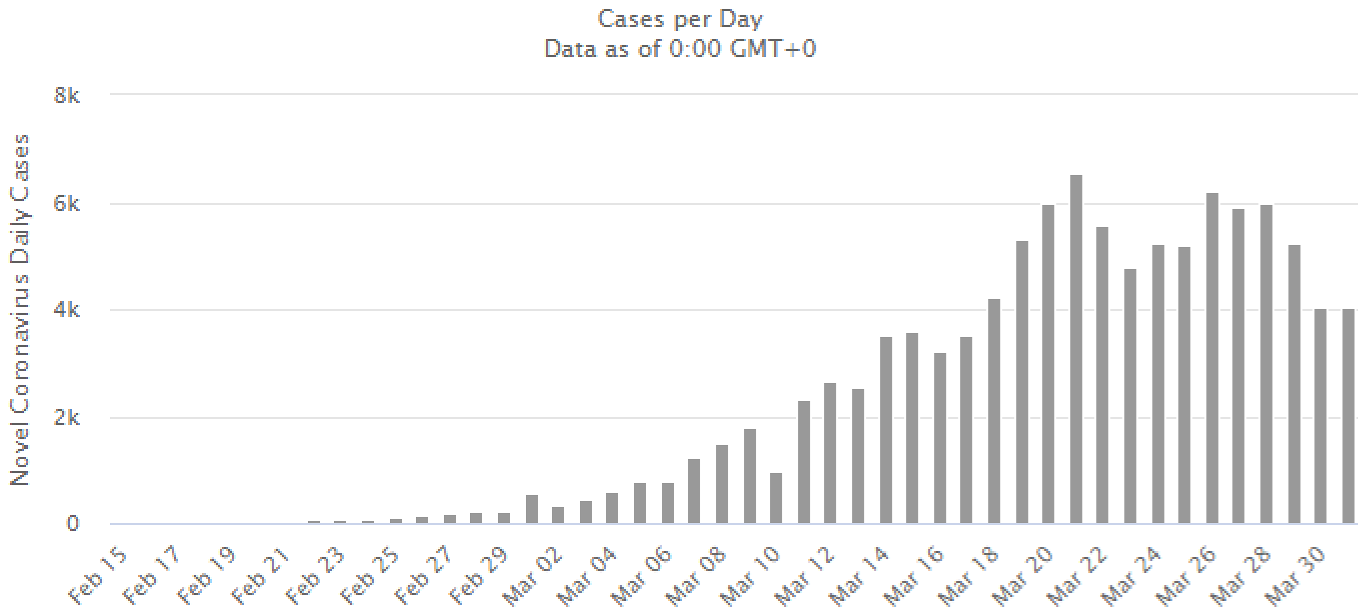
Given that the US was running a fiscal deficit going into the crisis, all this additional stimulus could easily push the budget deficit to over 15% of GDP. While this is a huge number, keep in mind that in a world where interest rates are below the trend growth rate of the economy, a government can permanently increase its budget deficit by any amount it wants while still achieving a stable debt-to-GDP ratio over the long haul. Today, we are not even talking about a permanent increase in the deficit, but a temporary increase that could last a few years at most.

If we end up in a depression, don’t blame the virus; blame politicians. Fortunately, given that the political incentives are aligned towards fiscal easing rather than austerity, our guess is that a depression will be averted.

II. Investment Strategy

As anyone who has ever watched a horror movie knows, the scariest part of the film is the one before the monster is revealed to the audience. No matter how good the makeup or set design, our imaginations can always conjure up something much more frightening than Hollywood can invent.

Right now, we are fighting an invisible enemy that is ravaging the world. Victory is in sight. The number of new infections has peaked in China and South Korea. ... we should watch Italy very carefully (we have substituted an updated chart of new cases for Italy) . If the number of new infections peaks there, that would send an encouraging signal to financial markets that other western democracies will be able to get the virus



under control. While it is too early to be certain, this may be happening: Both the number of new cases and deaths in Italy have stabilized over the past five days.

Of course, there is still the risk that the number of new infections will rise again if containment measures are relaxed prematurely. However, as we spelled out in this report, there are good reasons to think that these measures will not need to be as severe as the ones currently in place. As such, it is likely that global growth will begin to rebound in the third quarter of this year.

Equities: A Modest Overweight Is Warranted

... For now, we would recommend a modest overweight to stocks on both a 3-month and 12-month horizon. Monetary and fiscal easing and the prospect of a peak in the number of new cases in Italy could continue to support stocks in the near term, while a rebound in growth starting this summer should pave the way for a recovery in corporate earnings over a 12-month horizon. ...

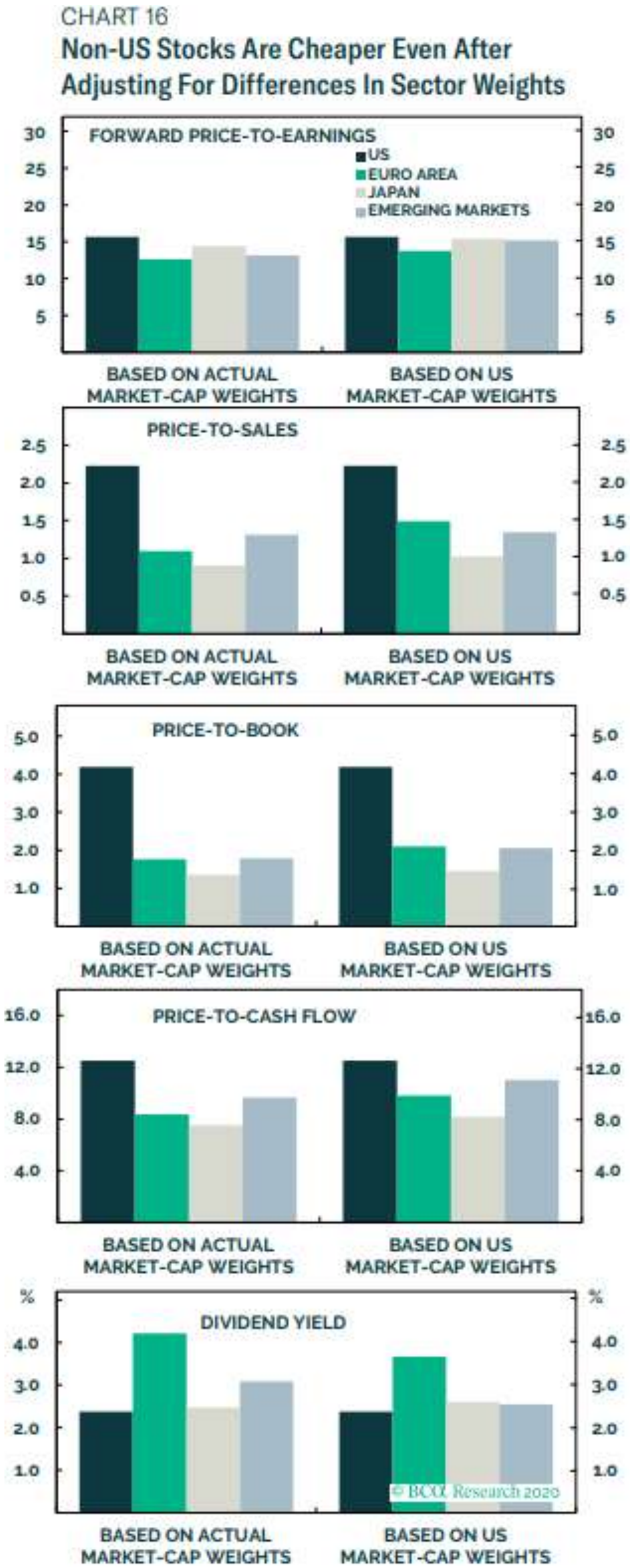
Sector And Regional Equity Allocation: Favor Cyclicals and Non-US Over A 12-Month Horizon

Not surprisingly, defensive equity sectors outperformed cyclicals both in the US and abroad during this month’s selloff. Financials also underperformed on heightened worries about rising defaults and the adverse effect on net interest margins from flatter yield curves.

Cyclicals and financials have outperformed the broader market over the past few days as risk sentiment has improved. They are likely to continue outperforming over a 12-month horizon as global growth eventually recovers and yield curves steepen modestly. To the extent that cyclicals and financials are overrepresented in stock market indices outside the US, this will give non-US equities the edge.

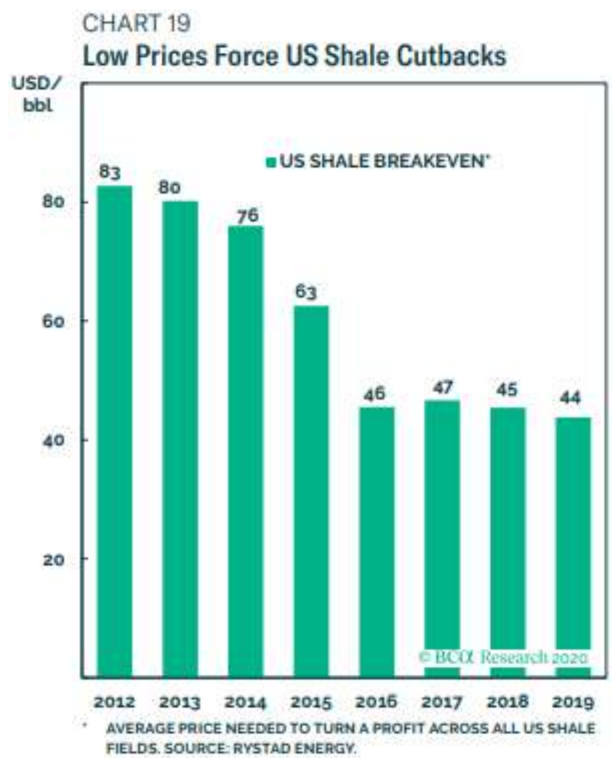
Stocks outside the US also benefit from more favorable valuations. Even after adjusting for differences in sector weights, non-US stocks are quite a bit cheaper than their US peers as judged by price-to-earnings, price-to-book, and other valuation measures (**Chart 16**). ...

Once Growth Bottoms, So Will Commodities



The combination of a weaker dollar, a rebound in global growth starting this summer, and increased infrastructure stimulus spending in China should help lift resource prices.

... Oil prices have tumbled on the back of the sudden stop in global economic activity and the breakdown of the agreement between OPEC and Russia to restrain crude production. BCA's commodity strategists expect the Saudis and Russians to come to an agreement to reduce output, as neither side has an incentive to pursue a prolonged price war. They see Brent prices averaging $36/barrel in 2020 and $55/barrel in 2021. However, prices are not likely to go much higher than $60/barrel because that would take them well above the current breakeven cost for shale producers, eliciting a strong supply response (**Chart 19**).



Government Bonds: Deflation Today, Inflation Tomorrow?

As noted at the outset of this report, the current economic downturn involves both an adverse supply and demand shock. Outside of a few categories of consumer staples and medical products, we expect demand to fall more than supply, resulting in downward pressure on prices. This deflationary impulse will be exacerbated by rising unemployment.

Looking beyond the next 12-to-18 months, the outlook for inflation is less clear. On the one hand, it is possible that the psychological trauma from the pandemic will produce a permanent, or at least semi-permanent, increase in precautionary savings. If budget deficits are reined in too quickly, many countries could find themselves facing a shortage of aggregate demand. This would be deflationary.

On the other hand, one can easily envision a scenario where monetary policy remains highly accommodative and many of the fiscal measures put in place to support households are maintained long after the virus is eradicated. This could be particularly true in the US, where our geopolitical team now expects Joe Biden to win the presidential election (as do we, but then we were convinced that Trump would lose 4 years ago, and Trump's approval rating of 45.9% on 538, which averages polls after adjusting for quality, recency, sample size and partisan lean, is up from 41.8% on Jan. 10th, and the highest since Jan. 25, 2017). In such an environment, unemployment could fall back to its lows, eventually leading to an overheated economy.

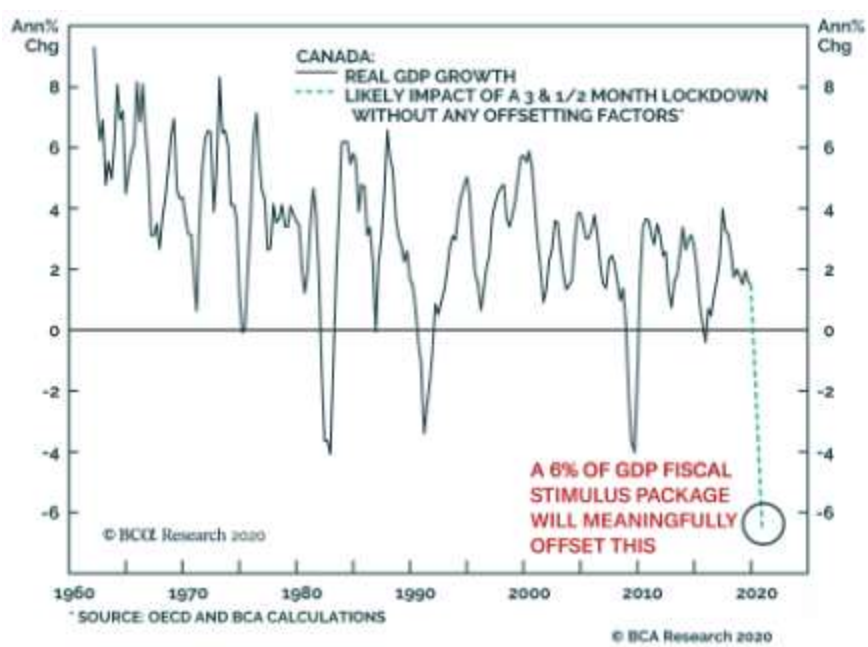
Our hunch is that the more inflationary scenario will unfold over the next 2-to-3 years. ...

From this morning's BCA | Daily Insights:

Quantifying The Raw Impact Of COVID-19 Containment Measures

Yesterday the OECD released its estimate of the economic impact of COVID-19 lockdown policies around the world. The sobering conclusion of the OECD’s work is that the initial direct impact of the shutdowns could be a decline in the level of output between one-fifth to one-quarter in many economies. Put differently, the OECD’s estimates imply a decline in annual GDP growth of up to 2 percentage points for each month that strict containment measures continue. If the shutdown continued for three months, with no offsetting factors, the OECD’s research suggests that annual GDP growth in OECD economies could be between 4-6 percentage points lower than it otherwise might have been.

While it is still highly uncertain how long lockdown policies will remain in effect around the world, information emerged yesterday out of Canada that helps clarify the substantial impact that strict containment measures are now likely to cause for advanced economies. The City of Toronto (Canada’s most populous city) announced a 12-week lockdown plan that includes the continued shutdown of all non-essential business – while Toronto’s Mayor stated that the measures may not last for the full 12-week period, he noted that residents should assume they will.

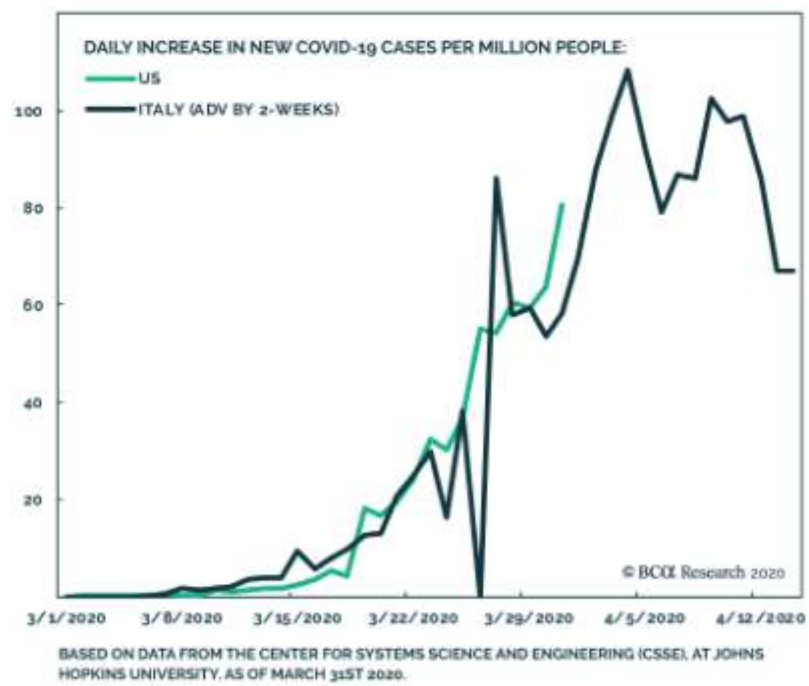


Toronto’s announcement effectively means that a lockdown is planned for the city until the end of June, which would imply a total lockdown period of 3½ months. The chart above shows that Canadian real GDP growth would fall to -6.5% this year in this scenario based on the OECD’s estimates without any offsetting factors, assuming Toronto’s roadmap is applied to the rest of the country.

The good news for investors is that this is mostly in line with the size of the fiscal stimulus package that has been announced: key Canadian tax and spending measures amount to approximately 6% of GDP according to the IMF, although this would admittedly only bring Canadian GDP growth back close to 0% rather than back to trend. In the US, the Coronavirus Aid, Relief, and Economic Security (CARES) Act provides for fiscal spending on the order of 10% of GDP, the overwhelming majority of which is likely to be spent this year.

As such, while the potential for negative second-round effects remain, and must be monitored over the coming months, fiscal authorities in key countries appear to have legitimately "purchased" a meaningful period of aggressive containment measures.

Italy's COVID-19 Experience Is The US Benchmark



We noted in an Insight earlier this week that the US appears to be following Italy's COVID-19 experience by roughly two weeks. The chart above makes this point more directly by comparing the US and Italian COVID-19 case count on a like-for-like basis.

The chart shows the daily increase in new cases per million people in each country. Italy's data series is lagged by two weeks, to highlight how closely the US is following the Italian experience on a per capita basis.

The chart makes clear a point that we highlighted in a previous Insight: by this time next week, investors will need to see signs of stabilization in the daily increase in new US cases in order to believe that the US is continuing to follow the (somewhat) hopeful path of Italy.

Investors should continue to monitor this chart over the coming days and weeks, as it is likely to strongly influence consensus expectations of the duration of time that aggressive containment measures will be warranted in the world's largest economy, which has now become the clear epicenter of the COVID-19 pandemic.

From Jason Zweig THE INTELLIGENT INVESTOR column in this weekend's WSJ:

The Cure for Panic Attacks

The dangers lurking in the market can be hidden or delayed, but never eliminated. For investors, slumps are a chance for introspection–and, sometimes, new opportunity.

How could a microscopic organism destroy nearly $15 trillion in global stock-market wealth in five weeks? Until recently, many investors believed central banks and other policy makers had repealed the business cycle and that making money in the stock market was something you could take for granted—in much the same way that science and technology seemed to have beaten back diseases that had been the scourge of humanity for millennia.

Maybe investors a century ago and more had a wiser view. ...

We shouldn't regard market panics as quaint artifacts from the days of ticker tape and trading by telephone. Rather, they are forces that can be hidden or delayed but never eliminated. And believing that panics have become obsolete is a precondition for their recurrence.

The modern history of financial markets is a chronicle of attempts to control risk—if not eliminate it. One after another, they have all failed.

"We trust these brilliant innovators in finance who seem to know what they're doing when they try to control risk," says Yale University economist and financial historian William Goetzmann. "And then, lo and behold, the risk mitigation doesn't happen."

The Federal Reserve was created in the wake of the Panic of 1907 to mitigate the risk of financial meltdowns.

Some thought the problem could be solved. As the stockbroker DeCourcy W. Thom proclaimed in his postscript to economist Clement Juglar's "A Brief History of Panics" in 1916: "Just as modern medicine is overcoming the dangers threatening the physical man, so is modern finance overcoming panic and the other dangers which threaten financial stability."

He was wrong—as similar forecasts have been ever since.

The Fed failed to stave off the crash of 1929 and, by not expanding the money supply in the early 1930s, probably worsened the Great Depression.

In the mid-1980s, a computerized hedging technique called "portfolio insurance" purported to limit losses for big institutional investors; it ended up being partially blamed for the crash of 1987.

In the mid-2000s, financial engineers created ever-more-complex derivatives as a way of carving up and spreading risk. That, Federal Reserve Chairman Alan Greenspan said in 2005, "contributed to the stability of the banking system" by allowing participants "to measure and manage their credit risks more effectively."

But risk can't be removed; it can only be moved. The techniques hailed by Mr. Greenspan may have caused the financial crisis of 2008-09 by making bankers and investors so complacent that they never sufficiently tested whether their assumptions might be wrong.

Finally, in the run-up to the latest panic, many investors seemed to believe index funds and exchange-traded funds, which can offer broad diversification at extremely low cost, had somehow eliminated the risk of owning stocks.

Our forebears, on the other hand, believed panics are the indispensable hygiene of markets, sweeping the investing landscape clean after every orgy of prosperity.

That notion was captured brilliantly by the illustrator Frank Bellew in a cartoon for New York's "The Daily Graphic," days after the onset of a market panic in 1873. An ugly giant straddles the street, sweeping up clouds of dirt and shreds of ticker tape labeled "BO-GUS BROKERS," "SHAKY BANKS" and "ROTTEN RAILWAYS." He wears tattered goatskins, his hair tangling into horns as it rises from his scalp.

The caption reads: "Panic, as a Health Officer, Sweeping the Garbage out of Wall Street."

Bellew personifies Panic as the god Pan, who haunted the countryside of ancient Greece. Half-goat, moody and mischievous, Pan was the god of herds, manipulating them with the music from his pipes. He lurked in mountain caves, arising at midday to burst out of nowhere at startled travelers.

No wonder the ancient Greeks called a sudden fear "panikos." It came from Pan.

He was also the god of fertility. And financial panics, through the ensuing upheaval, fertilize old ground for new competitors and transfer assets to those who can put them to their best use.

Out of the boom and bust in wooden turnpikes in early 19th century New England came the rights of way that railroads later followed with ease through the forests and fields. Out of the mania for technology stocks that collapsed in 2000-02 came the glut of fiber-optic networks that make instant communication universal and cheap as dirt today.

The U.S. and British economies “cannot subsist without sowing the wind and reaping the whirlwind of a financial crisis two or three times in each generation,” wrote the financial journalist Horace White in 1876. Financial crises, said White, recurred with “the regularity of clockwork, so that people pretend to know when to expect one by looking in the almanac.”

The early U.S. suffered severe financial panics roughly once every 13 years on average, in 1792, 1819, 1826, 1837, 1857, 1873, 1884, 1893 and 1907.

People used to regard booms and busts as part of “an organic cycle of life,” not as outcomes that can be prevented or controlled, says Mr. Goetzmann of Yale.

In that organic cycle, entrepreneurs who think business conditions will improve “become centers of infection, and start an epidemic of optimism,” the economist Wesley Clair Mitchell wrote in his 1913 book, “Business Cycles.” That optimism leads to a “flood tide of prosperity,” which washes away caution, creating euphoria that culminates in a crash—which, in turn, clears the way for recovery. Lather, rinse, repeat.

In recent decades, psychologists have shown that people tend to overweight recent experience in their predictions of the financial future. Because markets rise more often than they fall, the experience of most investors tends to be positive over time. The longer the good times roll, the more remote the chance of a decline will seem, the more overconfident investors will feel and the more risk they will take.

Only lately has that euphoria not seemed sinful.

An early panic on the Amsterdam stock exchange was a natural consequence of the preceding bull market, when caution was “called foolishness, madness and crime,” wrote the pamphleteer Joseph Penso de la Vega in 1688. “The spirit of Ahab and Satan” had enticed speculators to join in the “jubilation” of soaring prices.

Investors were frantic in 1720 as shares in the South Sea Co. soared and then crashed in London. Only God could restore them to sanity, Jonathan Swift wrote the next year in his poem “Upon the South-Sea Project”: “May he, whom Nature’s Laws obey, Who lifts the Poor, and sinks the Proud, Quiet the raging of the Sea, And still the Madness of the Crowd.”

Investors in ages past didn’t believe that the stock market was efficient. They thought it was— and always would be—a whirl-wind of emotion.

“Wall Street is as much the natural field for panics as the prairie is for tornadoes,” said the financier John Ferguson Hume in his 1888 book “The Art of Investing.” ...

After all, it isn’t investments that make or lose money; it is investors, with our own excesses of greed and fear. And that means market panics aren’t a time for reaction; they are a time for introspection.

So ask yourself: Have I been taking more risk than I realize? Conversely, how should I turn panic into opportunity? ...

Blind faith in tools for controlling financial risk has never made sense. If risk could ever be eliminated, investors would immediately turn so euphoric that they would drive the prices of financial assets sky-high—thereby creating an enormous new risk out of the absence of all the old ones.

Investors should never stop trying to manage their risks. But they should never believe that they, or anyone else, can eliminate them.

From the online version of Jason Zweig's WSJ column on March11th:

Buffett Mentor Would Advise a Look in Mirror

Forget about what the stock market is going to do. Instead, focus on what you, as an investor, ought to do.

That advice from Benjamin Graham, the great investment analyst and Warren Buffett's mentor, can help you navigate the market's latest storm. Should you jettison some stock or stay the course? How should you act now to reduce the odds that you will kick yourself later for taking too much risk or too little? A few of Graham's guidelines can help you know yourself and act accordingly.

In his writings, including the classic book after which this column is named, Graham laid out basic distinctions that should guide your behavior.

First, determine whether you are an investor or a speculator. "The investor's primary interest lies in acquiring and holding suitable securities at suitable prices," Graham wrote. The speculator, on the other hand, cares mainly about "anticipating and profiting from market fluctuations."

If you're an investor, "price fluctuations have only one significant meaning," according to Graham: "an opportunity to buy wisely when prices fall sharply and to sell wisely when they advance a great deal."

Speculators are in thrall to the mythical, moody figure Graham called "Mr. Market," who offers either to buy your stock or sell you more. As Graham imagined him—based on reality, of course—Mr. Market always wants to trade. Much of the time, the prices he sets are sensible. Often, however, they are "ridiculously" high or low.

Paradoxically, many people become more eager to trade with Mr. Market as his prices become more chaotic. A speculator is happy to buy more shares when prices rise, betting that Mr. Market will buy them back later at even crazier prices. When Mr. Market's enthusiasm turns to fear and prices fall, the speculator sells into that panic.

"The investor who permits himself to be stampeded or unduly worried by unjustified market declines in his holdings is perversely transforming his basic advantage into a basic disadvantage," warned Graham. He "would be better off if his stocks had no market quotation at all, for he would then be spared the mental anguish caused him by *other persons'* mistakes of judgment." (The italics are Graham's.)

The primary reason many individuals fail as long-term investors, Graham said in 1972, is that "they pay too much attention to what the stock market is doing currently."

Intelligent investors, he insisted, don't need superior intellect, training or expertise. Instead, intelligence consists of patience, independence and self-control. You don't have to let Mr. Market do the thinking for you. "The true investor scarcely ever is forced to sell his shares, and at all other times he is free to disregard the current price quotation," Graham wrote.

... you should reconcile yourself "to the probability rather than the mere possibility" that stocks will fall by 33% or more at least once every five years. ...

Declines, as Graham taught, should make you incrementally more enthusiastic about buying stocks—not less. If you are "the right kind of investor," he wrote, you should "take added satisfaction" from knowing that your actions are "exactly opposite from those of the crowd."

From Morningstar's John Rekenthaler on Mar 20, 2020:

When Will Stocks Recover?

The four stages of (most) bear markets.

Typically, bear markets have four stages.

Stage one is *recognition*. Almost everybody shrugs off a bear market's initial slide as being an ordinary event. The markets rise, and they fall. Treating every bad week as the bear's arrival would not only shred one's nerves, but would cause poor performance, should the investor act upon that instinct. Nine times of out 10, realizing a quick 5% or 10% loss would result in a permanent 5% or 10% loss, as stocks quickly return to their previous level.

This market achieved stage one during its third week. Stocks were up slightly for the year, before suddenly dropping 11% in the last week of February. In response, advisory firms issued reassuring notes about how these things happen, and market volatility is natural. The stock market surged the following Monday, failed to hold its gains, and then collapsed in week three—that is, last week. The bear was on.

Stage two is *panic*. This occurs when shareholders realize that the standard advice failed. Buying on the dip wasn't easy money, as it is nine times in 10. Rather, it led to greater damage. Along with the pain (and regret) of unexpected losses comes the surprise that the conventional wisdom was wrong. Investors' faith is tested—and some are found wanting. They sell first, then ask questions later.

We are currently in stage two. It could hardly be otherwise. Along with 1987's bust, the current stock market crash—it fully deserves that name, with the Dow at the time of this writing being down 34% from its peak—has been the fastest stock-market descent since The Great Depression. It is difficult to apply rational analysis when so much happens, so quickly.

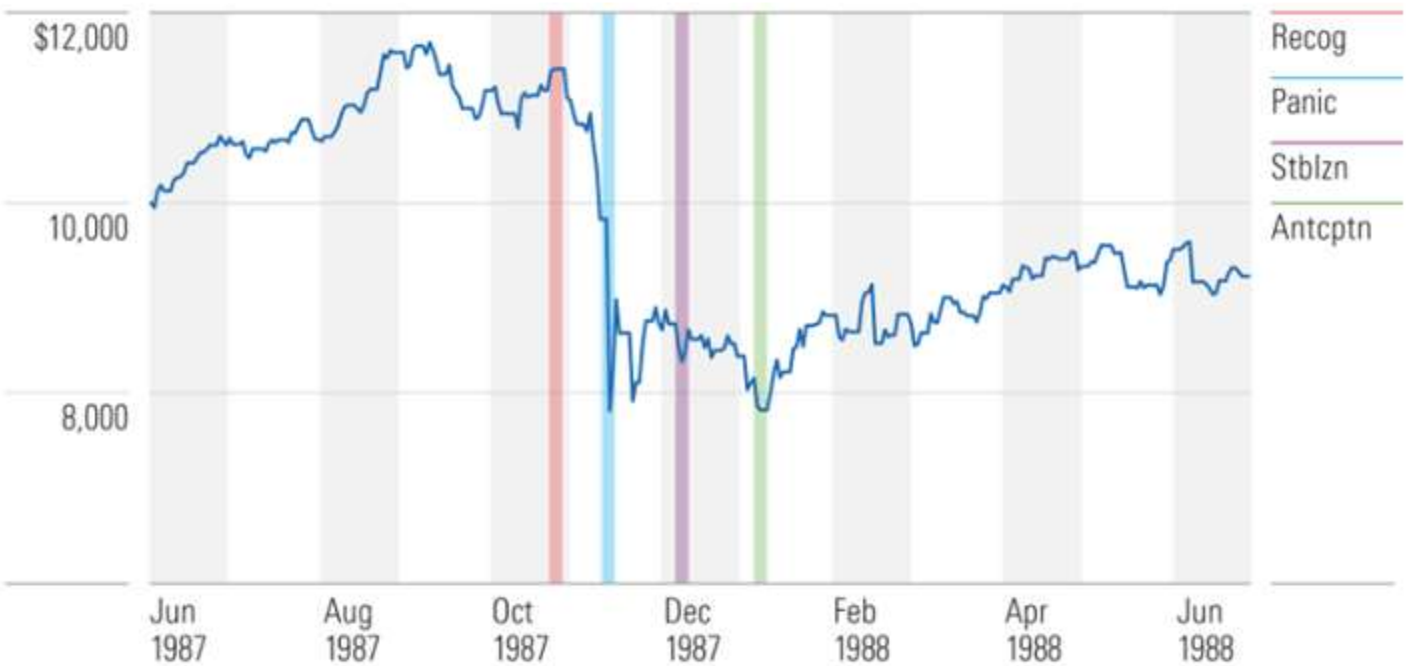
The View From the Bottom

Stage three is *stabilization*. Stocks halt their decline, thereby ending the impression that they will do nothing but fall. The panic subsides but the situation remains grim. Investors believed during the first stage that stock prices slide on a whim. Now they realize that equities stumbled for good reason, and that until that reason is eliminated, they will continue to struggle. Shareholders' losses will not soon be recouped.

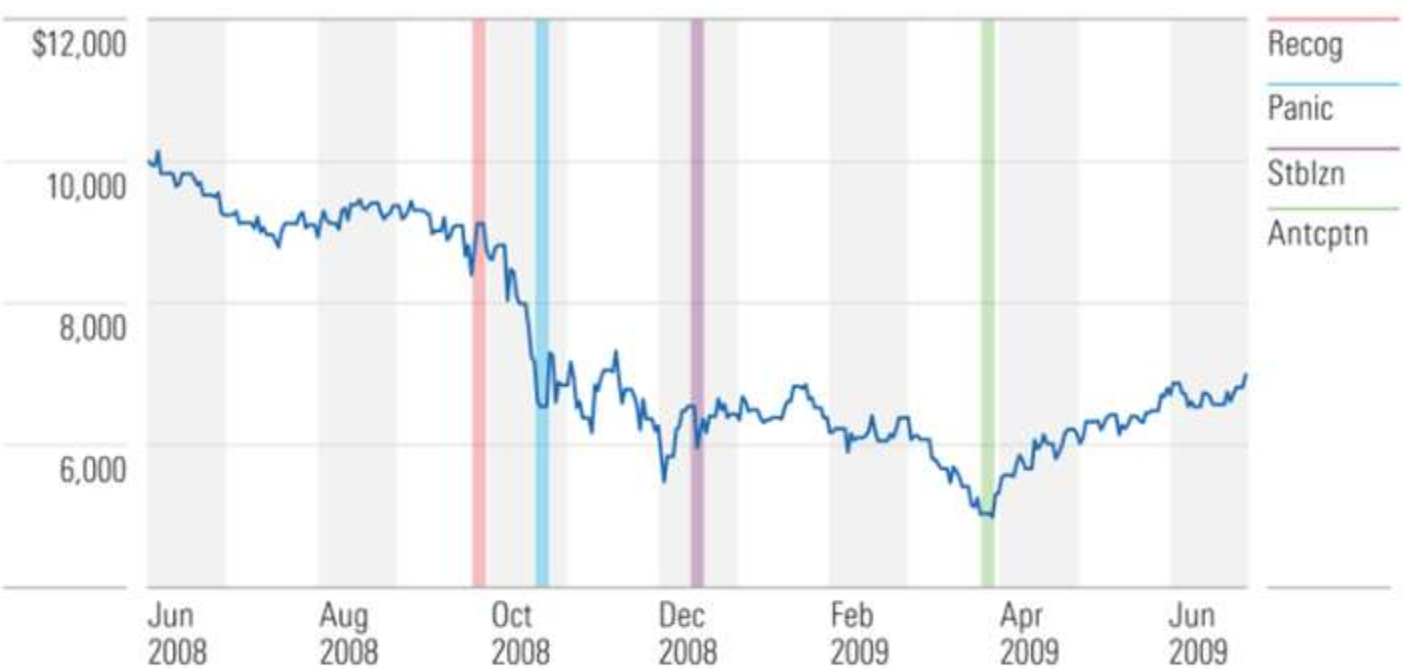
This period is marked by turbulence. Stocks rally, sometimes furiously, only to be knocked back down. Investor sentiment varies between guarded optimism that the end is at least remotely in sight, and despair that the hope was false. This is typically the bear market's longest period, extending for several months. (Several years for The Great Depression, but we do not wish to emulate that example.)

Stage four is *anticipation*. This is when stocks start their recovery. As with the bear market's beginning, almost nobody recognizes its end until after the fact. The news at the time tends to be almost unrelievedly grim, accompanied by articles about how stocks' golden days have passed. However, some investors perceive economic improvement distantly in the future. They make their bids, and stocks begin to rise.

Example #1: Black Monday This is how the four stages played out 33 years ago in the S&P 500:



Example #2: Financial Crisis And this is how they operated more recently, late 2008 through early 2009:



A classic case occurred in March 2009. The recession was in its terrifying midst. Real U.S. gross domestic product declined that quarter, and the next quarter, and the quarter after that. The Morningstar Ibbotson

Conference was held that month to empty seats, with the keynote speaker predicting several more months of equity losses. The rally began the next day.

Looking Forward

This scheme applies to bear markets that are primarily caused by recession fears. In addition to the two historic bears charted above, the scheme can be used to map the much smaller slump of 1990, and 1981's decline, and 1970's sell-off. Of course, the details for each of those markets vary, sometimes substantially—it would be reductive to imply otherwise—but the pattern is roughly similar.

However, the blueprint does not work for bear markets that arise from other causes. For example, the stock market's grinding decline from 1973 through 1974 doesn't map well to the four stages, because it was caused by steadily increasing inflation fears. The 2000-02 technology-stock implosion also fails the test, because the major concern as the New Era concluded was that equity prices had risen too high, not—aside from some of the Internet stocks—that earnings would disappear.

The question then becomes, does the current bear market fall into the first category or the second?

The former would be greatly preferable. With that scenario, the enormous uncertainty about the spread of the coronavirus, and the economic damage that the containment efforts will wreak, disappears over the next few months. The problems will remain large, but they will at least be known quantities—and the financial markets are adept at planning for what is known.

Should the picture become clearer, the four-stage scheme figures to be relevant. Fairly soon, I should think, stocks will enter the third stage, that of stabilization. That doesn't mean that they won't decline further, but the struggle will at least be bounded. Within months, not years, the stock market recovery should begin.

On the other hand, should uncertainties remain high and unresolved, perhaps because the virus's behavior confounds the scientists, or because the financial stimulus efforts prove ineffective, then all bets are off. I do not know how to analyze such a situation. I hope that I never shall.

Positions

BG - an IVA System pick purchased for 4 clients on 3/24 @ 34.95:

Insider Buying:

Trade Date	No. Part	Participants	Net Sell (Shares)	Net Buy (Shares)
03/13/2020	1	Neppl John W		5,000
03/12/2020	4	Winship Henry W, Bair Sheil		7,378
03/11/2020	3	Heckman Gregory A, Fyrwa		136,500
03/10/2020	8	Zachman Brian, Padilla Rau		98,485
03/06/2020	4	Mauger Pierre, Simmons Je	-1,875	
03/02/2020	18	Borg Deborah, Neppl John W		1,254
02/28/2020	4	Neppl John W, Dimopoulos		3,971
02/26/2020	1	Zachman Brian		10,000
02/21/2020	2	Fyrwald J Erik, Heckman Gr		6,045
02/20/2020	2	Heckman Gregory A, Neppl		39,022
02/19/2020	1	Neppl John W		5,863
02/18/2020	1	Podwika Joseph		15,000

From Morningstar:

Maintaining $71 Fair Value Estimate as Bunge Continues to Improve Operations; Shares Undervalued

Analyst Note | by Seth Goldstein Updated Feb 12, 2020

Bunge reported solid fourth-quarter results, as adjusted segment EBIT more than doubled year on year due largely to solid execution in the grains business. It especially benefited from increased farmer selling in South

America. With our long-term outlook for Bunge largely intact, we maintain our $71 per share fair value estimate and no-moat rating. At current prices, we view Bunge shares as undervalued, with shares trading in 4-star territory. However, we reiterate our very high uncertainty rating for the company.

In the agribusiness segment, higher prices in Brazil and increased farmer selling in Argentina ahead of the implementation of export taxes, drove profits to more than triple versus the fourth quarter of 2018. Given the favorable conditions for farmers in Brazil, we think Bunge will likely begin the year by generating profit growth versus 2019 on higher agribusiness volumes. However, with the phase 1 deal signed, we think Bunge is positioned to see second-half headwinds as China purchases more ag products from the U.S., at the expense of South America, where Bunge has a larger footprint.

During the fourth quarter, Bunge completed the creation of its proposed sugar and bioenergy 50/50 joint venture with BP. The sugar business turned profitable in 2019, after generating an adjusted segment EBIT loss in four of the previous six years, largely due to higher ethanol and sugar prices and lower costs. We expect the JV will benefit from continued profitability in 2020 and beyond as the Brazilian government announced regulations for a carbon credits system that should boost ethanol demand and grow profits for ethanol producers. For Bunge, this should result in either more sustained profits from the JV or the potential to monetize the business if the JV decides to pursue an IPO.

Business Strategy and Outlook

Bunge buys, processes, and sells agricultural commodities. The commodity products that Bunge moves around the world are readily available from competitors, and the company has little pricing power over the products it buys and sells, making for razor-thin margins. Additionally, the capital intensity of its operations makes it difficult for Bunge to generate economic profits.

Bunge generates nearly two thirds of its profits from the agribusiness segment. The company buys crops from farmers and then transports, stores, and processes the crops before selling them to food and feed companies. Based on capacity, Bunge is the leading oilseed processor in the world. The company has a large footprint in Brazil, the second-largest producer of soybeans behind the United States. We think the firm will benefit in the coming years as global agriculture trade increases. That said, we think Bunge operates in a very tough and volatile environment. As a middleman in a commodity industry, Bunge is subject to price and foreign-exchange fluctuations outside of its control. Crop yields, and thus weather, also affect Bunge's results year to year. Further, the company's expansive distribution and processing network requires constant capital expenditures, and high fixed costs require high-capacity utilization to produce solid profits.

In addition to agribusiness, Bunge has notable operations in food and ingredients, where the company processes and sells edible oils and corn-based products. Through acquisition, the company is focusing on expanding its premium oils products. In 2018, Bunge acquired a 70% ownership stake in Loders Croklaan, a producer of palm and tropical oil ingredients used in food and consumer products. Bunge also has operations in fertilizer and in sugar milling through a 50/50 joint venture with BP.

Economic Moat

We assign a no-moat rating to Bunge. For the most part, Bunge is a middleman between farmers and downstream food companies with little pricing power over products that can fluctuate wildly with crop prices and yields. Agricultural processing is characterized by low margins and fairly high capital requirements, and we don't expect Bunge's additional investment in specialty oils will change the overall picture for the company. We don't believe Bunge holds a sustainable cost advantage in any of its businesses, and for the most part, its commodity products are not differentiated enough for the company to benefit from the intangible asset and customer switching cost moat sources that are present in specialty ingredients producers.

Fair Value and Profit Drivers

Our fair value estimate is $71 per share. We use a terminal enterprise value/adjusted EBITDA multiple of 8.0 times. As global demand for protein increases, Bunge is well positioned to benefit from higher sales volumes of oilseeds and derivatives. Over the long run, we expect agribusiness to earn about $7 of operating profit for every ton moved through the firm's extensive network, which would increase companywide operating margins to 3% by 2023 from a trailing 10-year average of around 2%.

We expect Bunge’s edible oils business to expand operating margins from 1.8% in 2019 to 2.3% by 2023 as the company sells a greater proportion of specialty oils from the Loders acquisition. We think capital expenditures will average slightly above 1% of sales, which is in line with historical metrics. We use an average cost of capital assumption of about 8% for Bunge.

Risk and Uncertainty

In many cases, Bunge is essentially a middleman between farmers and food companies, operating in an industry with razor-thin margins. As such, small changes in agricultural commodity prices can have an outsize impact on the company’s profits. The prices and supply of the agricultural products Bunge buys and sells are volatile and depend on factors outside the company's control, such as weather, planting, disease, and government programs. As a producer of soy-based oil products, Bunge is exposed to soy crush margins. If the soy crush spread remains compressed for a prolonged period, Bunge’s agribusiness profits would likely be impaired. Factors that affect the soy crush spread include the global supply of soybeans and global demand for soy meal and soy oil. Should demand for soy meal temporarily decline due to African swine fever, the soy crush margin could fall and squeeze Bunge's profits.

Additionally, the trading desk in Bunge's grain merchandising operations puts the firm at risk for large profit swings depending on trading results. Currency exchange rates also have an impact on the firm's results. Bunge conducts a material amount of its business in emerging markets, where political and economic instability is higher than in the developed world. Government regulations that support certain crop prices could change in the future. Finally, Bunge advances capital to farmers in Brazil, and results would suffer if these farmers were unable to pay their debts.

Stewardship

We assign a Standard stewardship rating to Bunge.

Bunge is in the midst of a leadership transition. In October 2018, at the request of two activist shareholders, Continental Grain and D.E. Shaw, Bunge agreed to appoint four additional directors to the board, increasing its size to 15 directors from 11. Further, three of Bunge's longest-serving board members will not stand for re-election in 2019, and we expect the activist shareholders are likely to nominate new directors, increasing their strategic influence over the company. The board will also conduct a strategic review of the company. While a deadline has not been set for completion of the review, we expect Bunge to announce updates throughout 2020. The first major announcement was to move Bunge's Brazilian sugar milling assets to a joint venture with BP, which closed in December. As a part of the transaction, Bunge moved $700 million in debt to the joint venture and received a $75 million payment from BP.

Greg Heckman was named CEO in January 2019. He was appointed to the board at the request of the activist shareholders in late 2018. Although Heckman is new to Bunge, he brings over 30 years of industry experience, most notably as CEO of Gavilon, which was the grain merchandising business spun off from Conagra. Heckman replaced Soren Schroder, who stepped down after serving as CEO since 2013. In relatively short order, Heckman announced plans to simplify Bunge's management structure, going from a regional management system to a global operating model. We think this will allow the agribusiness, which has lagged peers in recent years, to run more efficiently as it will give management greater visibility into agribusiness performance.

Over the years, Bunge struggled to generate returns on invested capital that consistently outpace the cost of capital. We don't necessarily view that as a knock on the management team, as Bunge operates as a middleman in a tough, capital-intensive business.

Management's long-term compensation is based on return on invested capital, share price appreciation, and earnings per share over a rolling three-year period. We are in favor of the ROIC metric as it is an incentive to management to invest in valued-added areas of the business.

From InsiderInsights' Mar. 2 Newsletter:

Bunge Limited (BG) @ $46.05 *(Recommended via 2/28 Email Alert.)*

... is a global farm products firm with operation spanning agribusiness, edible oil products, milling products, sugar and bioenergy, and fertilizer.

Seven insiders have bought BG since mid February, at prices as high as $53.78.

Only 5 of the 8 analysts following BG rate it Buy or better, but the low-end price target of those that think the stock is merely a Hold is up at $53

CSWC - BDC Buzz, our primary Business Development Company analyst despite the name, purchased additional shares of this Venture Capital BDC on 3/19. We purchased for 2 clients on 3/30 @ 11.52:

Insider Buying:

Trade Date↑	No. Part	Participants	Net Sell (Shares)	Net Buy (Shares)
03/20/2020	2	Sarner Michael, Diehl Bowe		41,500
03/18/2020	2	Furst John Douglas, Brooks		58,500

DAR - is an IVA System pick in the exciting business of Rendering & Meat Byproducts. We purchased for 3 clients on 3/24 @ 16.94:

Insider Buying:

Trade Date↑	No. Part	Participants	Net Sell (Shares)	Net Buy (Shares)
03/18/2020	3	Muse John O, Phillips Brad,		13,500
03/16/2020	1	Adair Charles		500
03/12/2020	1	Adair Charles		1,000

EQH - is a Life Insurance IVA System pick. We purchased for 3 clients on 3/27 @ 14.7176.

Insider Buying:

Trade Date↑	No. Part	Participants	Net Sell (Shares)	Net Buy (Shares)
03/23/2020	1	Stansfield George		2,500
03/19/2020	1	Kaye Daniel G		4,000
03/18/2020	2	Lane Nicholas, Stansfield G		6,850
03/17/2020	1	Kaye Daniel G		4,000
03/16/2020	8	Pearson Mark, Malmstrom A		4,683.19
03/12/2020	3	Pearson Mark, Hattem Dave		20,000
03/11/2020	1	Kaye Daniel G		3,000
03/09/2020	2	Pearson Mark, Malmstrom A		18,635
03/06/2020	2	Oliveira-Cezar Ramon De, L		12,100
03/05/2020	1	Oliveira-Cezar Ramon De		4,890

HFRO for **GIFIX -** The advantage that CEFs have over OEFs is that they are not forced to sell their positions when investors panic. The key is buying a well managed CEF at a steep discount to NAV. Note HFRO's current Disc/Prem of -29.57%, compared to its 3-Year Avg of 0.00%. A 1-Year Z-Statistic of -2 is considered significant undervaluation. In this case Morningstar's 2 star rating, based on past relative performance, is meaningless. We have added GIFIX (orange line) to Morningstar's YTD chart. Note that GIFIX has fallen 19.18%, compared to HFRO's 11.07% NAV decline. The difference between HFRO's NAV and price decline is the result of investor panic. OEFs, like GIFIX, that invest in relatively illiquid assets, like Bank Loans, are forced to sell them into a rapidly declining market when panicked fund holders redeem, further exacerbating the portfolio's decline. We purchased HFRO for 2 clients on 3/24 @ 8.79.

From High Dividend Opportunities on Jan. 22, 2020:

Buy Alert HFRO

As we have noted in several of our reports that fixed income opportunities are becoming rare with many preferred stocks and bonds trading in bubble territory. Here at HDO, we continue to monitor the markets and we have identified an undervalued opportunity for our fixed income investors who like high yield at cheap prices. The opportunity is **Highland Income Fund** (HFRO) which yields 7.5% and pays the dividend on a monthly basis.

Action to take:

We are adding HFRO to our "Conservative Portfolio" with a "Buy Under" price of $12.70.

- This is a **lower risk investment** that is suitable for our "**conservative income investors**".
- HFRO issues 1099 tax forms. No K-1s.

Summary

- *HFRO has traded flat recently while most fixed income investments have soared.*
- *The NAV is trending up and it now is an official addition to our portfolio at "High Dividend Opportunities".*
- *HFRO is a good addition for conservative investors looking for high yield with upside potential.*

... **Highland Income Fund** (HFRO) first came into our vision when it dropped over 7% in October 2019. We highlighted it to our members as an optional pick. The price of HFRO remained mostly flat at a time when most fixed income investments have been soaring. The barely positive returns came about thanks to three distribution payments.

HFRO's Assets

HFRO invests in a wide variety of asset classes with a focus on shorter term senior loans. The ultra-short duration of the fund can be seen when examining the reset frequency of its loans. At 89 days the fund resets almost as quickly as we have Federal Reserve meetings. That has good and bad consequences as rates can move up and down just as quickly.

FUND CHARACTERISTICS	
Days-To-Reset (wtd. avg.)	89
Number of Borrowers	90
CLO Price (wtd. avg.)	$92.13
Loan Price (wtd. avg.)	$94.51

Yields that reset when short-term interest rates move are more useful in a changing interest rate environment. Such assets also have very low "duration risk", but tend to produce lower income in falling interest rate environments, like the one we are currently in. The fund has been around since early 2000 but recently converted to a closed-end format.

FUND FACTS

NYSE Symbol	HFRO
CUSIP	43010E404
Expense Ratio	1.79[1]
Inception Date	1/13/2000
Fund Managers	Mark Okada *Co-Founder, Co-CIO,* Jim Dondero, *Co-Founder, President* Jon Poglitsch *Head of Credit Research*

While the fund focuses on senior loans, there is a lot more to this one. For starters it has a pretty good exposure to Collateralized Loan Obligations or CLOs.

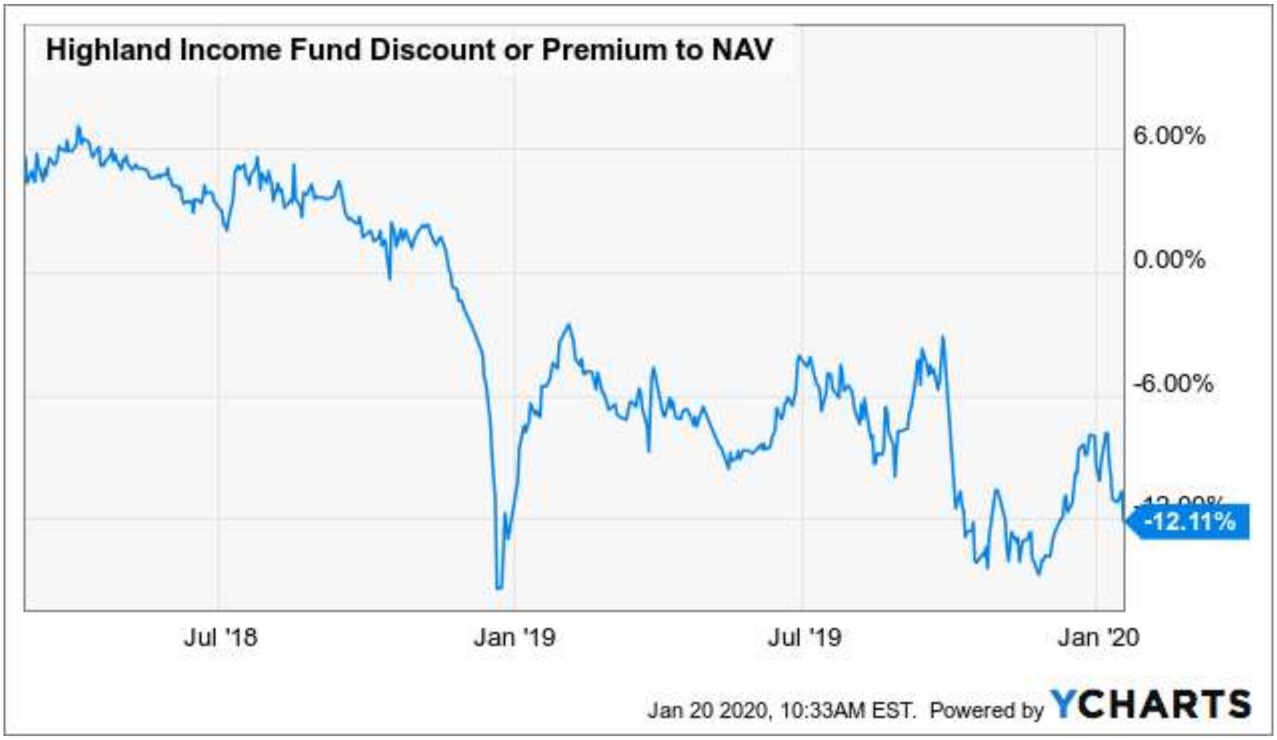
Collateralized Loan Obligations (g) - 22.0%			1,125,000
7,000,000	Acis CLO, Ltd., Series 2014-5A, Class D VAR LIBOR USD 3 Month + 4.340%, 7.15%, 11/1/2026 (h)(i)	6,662,833	1,825,000
7,500,000	Acis CLO, Ltd., Series 2015-6A, Class E VAR LIBOR USD 3 Month + 5.490%, 8.30%, 5/1/2027 (h)(i)	6,572,367	1,500,000
14,750,000	Acis CLO, Ltd., Series 2014-4A, Class E VAR LIBOR USD 3 Month + 4.800%, 7.61%, 5/1/2026 (h)(i)	12,353,125	3,000,000
4,000,000	Acis CLO, Ltd., Series 2014-3A, Class E VAR LIBOR USD 3 Month + 4.750%, 7.56%, 2/1/2026 (h)(i)	3,408,400	
750,000	Acis CLO, Ltd., Series 2014-4A, Class D VAR LIBOR USD 3 Month + 3.100%, 5.91%, 5/1/2026 (i)	695,119	4,000,000
1,000,000	Acis CLO, Ltd., Series 2015-6A, Class D VAR LIBOR USD 3 Month + 3.770%, 6.58%, 5/1/2027 (h)(i)	945,000	4,000,000

The fund also has a similar weight in preferred stock and holds a small amount of corporate bonds.

Preferred Stock - 22.0%		
REAL ESTATE - 22.0%		
645,161	Braemar Hotels & Resorts, Inc., REIT 5.50% (j)	11,198,834
180,008	Creek Pine Holdings, LLC REIT 10.25% (c)(e)	189,057,352
22,500	Jernigan Capital, Inc., REIT 7.00% cash/7.00% PIK (c)(e)	25,248,211
	Total Preferred Stock (Cost $ 212,508,333)	225,504,397

10,378	Entegra TC LLC	—
	Total Common Stocks (Cost $ 360,607,997)	88,732,216
Corporate Bonds & Notes - 1.2%		
ENERGY (b) - 0.1%		
15,600,000	Ocean Rig UDW, Inc. (c)(e)(i)	1,076,400
5,000,000	Rex Energy Corp.	73,500
		1,149,900

The fund's poor recent performance can be heavily attributed to its CLO and senior loan exposure where pricing has been rather horrendous. CLO funds like **Eagle Point Credit** (ECC), which yields 15.5%, and **Oxford Lane Capital** (OXLC), which yields 17.9%, have escaped from some of this pain as their funds have traded at a large premium to NAV. In HFRO's case, the fund had a double whammy of falling NAV and a newly opened up discount to NAV.



We expect a mean reversion of both the CLO pricing and the distance from NAV and hence we are bullish on this name.

Concentrated bets with moderately high leverage

The fund does make highly concentrated bets. For example, it has a very big bet on Creek Pine Holdings LLC, currently at 12.8%. ....

The second reason is that the fund does use leverage and that has usually been a net 40%. This is on the high side, but not unusual or a deal breaker. For comparison purposes, a fund consisting only of equity CLOs would be a more volatile asset class than HFRO. Even such funds (which invest almost exclusively in CLO equity) like ECC and OXLC, use similar levels of leverage.

Distributions

This is a great fund for income and pays out 7.7 cents a month for $0.924 annually. The current Net Asset Value of the fund is $13.95, *so the fund is generating 6.62% off "Net Asset Value".* At the current price *the yield is a rather strong 7.5%.* Since you are buying this at a discount, you are getting the benefits of a much higher yield than if you bought these same investments at par. You are also getting to buy CLOs which are currently an extremely battered asset class, at a great discount. Remember this asset class based on market yields is currently poised to deliver over 20%-22% a year. The short term loans drive the bulk of the cash flow but the returns are powered by the CLOs. We examined the distribution and it is covered thanks to the 22% plus exposure to CLOs which bump up the overall yield.

Current backdrop

The fund is currently suing Credit Suisse for a whopping $295.2 million, which was also the reason for conversion to the CEF structure. Their preferred shares press release goes into this in detail.

The Trust and NexPoint Strategic Opportunities Fund, an affiliated fund, are the beneficiaries of a +$360 million judgment against Credit Suisse related to a syndicated real estate transaction fraudulently underwritten by Swiss bank. Credit Suisse is appealing the judgment against it. The two funds also are participants in a similar action against Credit Suisse related to five additional real estate deals in which the funds allege Credit Suisse committed fraud in relation to the underwriting. Case or Docket Number: 05-15-01463-CV. Full Names of Principal Parties: Claymore Holdings, LLC v. Credit Suisse AG, Cayman Islands Branch and Credit Suisse Securities LLC. The Trust would be entitled to 82% of any net amounts ultimately collected on the judgment against Credit Suisse."

If they won they would ultimately collect about $200 million net boosting NAV by about 20%. The fund has won this battle in the lower courts but recently this case was taken up by the Texas Supreme Court. The hearing was held on January 8, 2020. A follow up press release was issued by HFRO recently.

Per the order, the Texas Supreme Court will review the case at a hearing scheduled for January 8, 2020. While this prolongs the legal process, it does not affect Highland's conviction in our claims against Credit Suisse or our commitment to recovering damages for investors.

The total aggregate award stands at $393.2 million today; it is comprised of the $287.5 million judgment initially awarded by the trial court and now twice confirmed on appeal, plus $105.7 million in accrued interest. The award will continue to accrue interest in the event that the judgment becomes final. Any final judgment amount would be reduced by attorney's fees and other litigation-related expenses. The net proceeds would then be allocated to the Funds based on respective damages (approximately 82% to HFRO and 18% to NHF).

We do not know the exact timing of the Texas Supreme Court's decision following the January hearing; however, the decision should be issued by the end of the Court's term in June 2020 at the latest.

We knew this would be a long process but have been committed to recovering damages for our investors since day one.

A Little Bit more About the Steep Discount

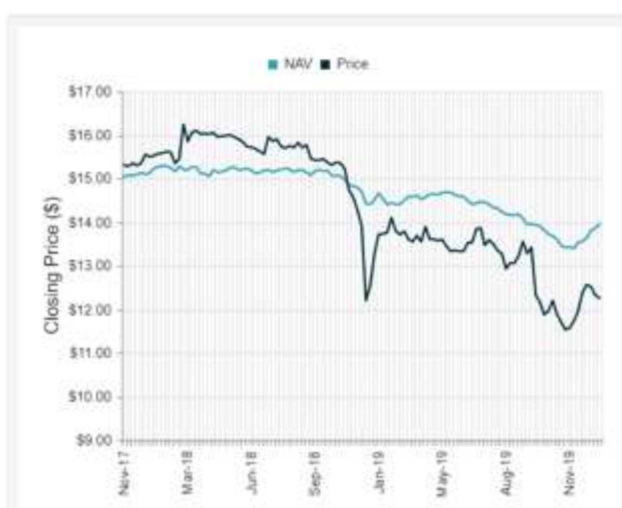
For one of the few funds here that will likely not have to cut their distribution even with falling rates, the NAV discount is rather steep and at the high end of its one year range.

Overview

As of 1/21/2020

	Share Price	NAV	Premium/ Discount
Current	$12.27	$13.95	-12.06%
52 Wk Avg	$13.07	$14.20	-8.02%
52 Wk High	$14.20	$14.70	-2.35%
52 Wk Low	$11.05	$13.36	-14.72%

Regular Distribution Type[1]	Managed Distribution
Distribution Rate	7.53%
Distribution Amount	$0.0770
Distribution Frequency	Monthly



The discount is also at the high end of where the fund has traded in its entire public history.

At present value the fund is pricing in that there will be a zero net gain from the court case and possibly also pricing in a moderate recession in the immediate future. We think HFRO has a very good chance of winning this but even if they do not, *we see no reason why the fund should trade at this steep a discount.* If they do win, the NAV would move to $16.75/share approximately, which would be a nice windfall to shareholders. About 80-85% of cases that reach Texas' Supreme Court are reversed. This intuitively makes sense as the Texas Supreme Court just refuses to take on a case when it thinks that the lower court needs no coaching and got the decision perfectly right. However that word reversal used is rather misleading as it applies to any change made to the lower court decision. The facts here strongly support that there was wrongdoing by the counterparty and the most likely outcome is a moderation of the payout rather a complete reversal. By buying at a discount to NAV with no amounts booked, we have a good risk reward to our entry.

Conclusion

HFRO continues to go under the radar, although it is beginning to receive some extra attention by analysts. The fund appears to be bottoming out and with the senior loan and CLO markets staging a recovery, we see NAV moving up about 7%-8% over the year. The opportunity exists on multiple fronts here. We can summarize them below.

1) The higher expected NAV.

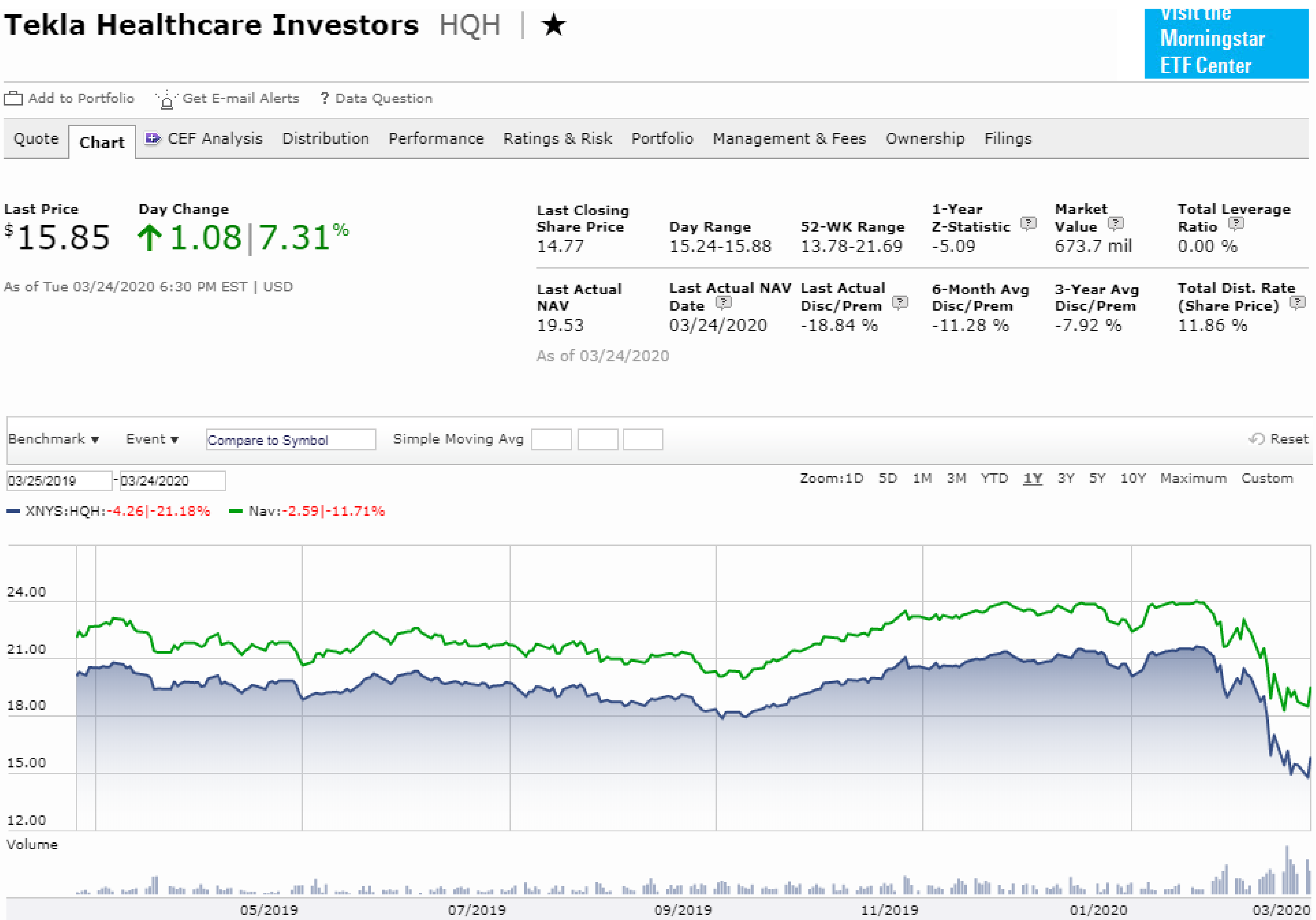
2) The high current yield as a result of the fund being at a big discount to NAV.

3) The potential for closing this discount to a more normalized level.

4) The potential for big gains from the litigation.

With most fixed income investments, including preferred stocks, and bonds, being very expensive at the current prices, income investors should look for value where they can find it. ... **We expect about 15% total return in a year as a base case (7.5% yield plus 7.5% capital appreciation)** even if there are zero monies awarded from the pending case. In addition to senior loans, with HFRO you get juice of CLOs, without paying above NAV or very high fees like our other CLO funds. If the fund does win the case, **the upside is rather steep.** The fund also announced a buyback to reduce the gap with NAV and this is another key positive step that validates our confidence. HFRO is one of few fixed income opportunities available today for conservative income investors. ...

HQH - Another CEF opportunity where Morningstar's past performance rating should be ignored. We purchased for 2 clients on 3/24 @ 15.6346.



From High Dividend Opportunities on Dec. 17, 2018:

Share In Healthcare And Biotech Gains With A 10% Yield from This Tekla Fund

We are pleased to provide an updated research report on Tekla Healthcare Investors (HQH), a healthcare Closed End Fund that we hold in our "Core Portfolio":

Summary

- *The biotech sector not only has helped to discover cures to difficult medical problems but also has outperformed the broader market.*
- *Tekla Healthcare Investors (HQH) is a CEF which provides investors a diversified allocation of biotech stocks.*
- *HQH has a proven track record (since 1998), and strongly outperformed the S&P 500 index over the long run.*
- *At current prices, shares trade at a wide discount of 10.1% to NAV, which management is addressing through an aggressive share repurchase program.*
- *The shares are yielding 10% and are a strong buy.*

Defensive Nature of Healthcare and Biotech Stocks

The healthcare and biotech sectors should play a role in every balanced portfolio, not only because they provide diversity, but also because of their fast growth, which is generally not dependent on the state of the economy. Companies in this sector are able to increase their revenues even during uncertain times, such as a recession. These are deemed as non-cyclical stocks, so they are not as much affected during economic downturns.

Why a biotechnology fund for an income investor?

The biotechnology field is an exciting sector. It is full of the promise of discovery and treatments that will improve the lives of millions of people across the globe. Along with that comes the reward of owning a part of a company that sells the next blockbuster drug, treatment or device. But ever present is the risk that large outlays of cash to develop a new product will result in failure. Few average investors ... have the medical and technological expertise to determine which companies have the best prospects of success.

For instance, before 2013 who could have predicted the success of Gilead (GILD) with its various cures for Hepatitis C? Or the decline in revenues and profits from those drugs over the last couple of years as the sickest people were cured and competitors released similar products?

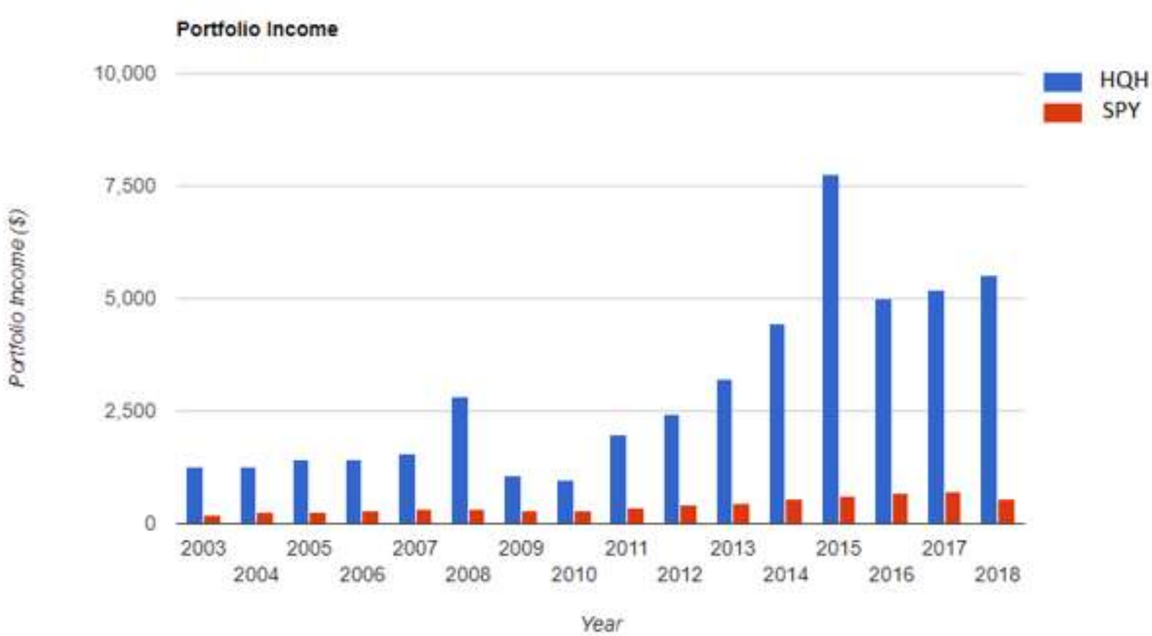
In the biotechnology sector only Johnson & Johnson (JNJ) is an easy pick. Gilead and Medtronic (MDT) are both good, but not simple picks. Here is where a closed end fund, such as **Tekla Healthcare Investors** (HQH) can be very useful. An investor gets instant diversification **and** experts managing the holdings.

While the vast majority of healthcare and biotech stocks pay little or no dividends, HQH currently has a yield of 10.0%. So HQH provides a good solution for income investors looking to diversify in this sector with high yields.

A History of Strong Outperformance

Since 2003, HQH has strongly outperformed on a total return basis. It has significantly beaten the S&P 500 index (SPY). Over this time period, **total return were at 416% compared to just 302% for the S&P 500 index**. Even in its worst year, HQH has performed significantly better than for SPY and the other risk metrics are reasonable given the greater return.

These are stellar returns given that they include the impact of the financial crisis and the related "bear market" seen in the years 2007-2009. So the track record of this fund is pretty solid.



But HQH was bought **to provide investors with income**, as shown above.

HQH pretty much crushed SPY every year, as one would expect from this higher yield fund. The dividend income generally increased each year. The Great Recession year of 2009 was an exception, and so was 2016 due to a big surge in income in 2015 that was not repeated.

The dividend that investors received saw a big surge over time. In 2003, $1,268 in income was collected by shareholders, while in 2018 $5,506 was collected - an **increase of 334.2%**. While the dividend income from HQH is somewhat variable, long term it is increasing.

What are the current holdings of the fund?

Tekla Capital Management LLC, the investment advisor, seeks to take advantage of 4 trends it believes provide investment advantages in the healthcare sector. These 4 factors are:

1. Aging demographics creating need for more medical services and products
2. The continued adoption of new medical services and products
3. Increased biotechnology sales from bringing to market products and services in the later stages of development and testing
4. Robust M&A activity

TOP 10 HOLDINGS AS OF 9/30/2018

Amgen Inc.	7.10%
Biogen Inc.	7.00%
Gilead Sciences, Inc.	6.00%
Celgene Corporation	5.80%
Illumina, Inc.	3.90%
Vertex Pharmaceuticals Incorporated	3.80%
Regeneron Pharmaceuticals, Inc.	3.30%
Mylan N.V.	3.00%
Johnson & Johnson	2.80%
Alexion Pharmaceuticals, Inc.	2.60%

- Amgen (AMGN) markets Neulasta and Enbril each with more than a $1 billion in sales each quarter.
- Biogen (BIIB) had $4.4 billion in revenues in its latest quarter and markets an industry leading Alzheimer treatment portfolio.
- Gilead markets several HepC drugs and also specializes in HIV treatments and had $5.6 billion in revenues last quarter.
- Celgene (CELG) reported $3.89 billion in revenue in its latest quarter.
- Illumina (ILMN) reported 20% growth in earnings to $853 million with a 22% increase in earnings.

- Vertx Pharmaceuticals (VRTX), which produces a range of medicines to treat cystic fibrosis and recently got approval to use them in even younger children, saw its earnings in the latest quarter more than double.
- Regeneron Pharmaceuticals (REGN) reported $1.66 billion in revenues in its latest quarter, up 11% from a year ago with a 53% increase in earnings.
- Mylan (MYL) saw its revenues slide 4.3% to $2.86 billion for the quarter, but saw a 100% increase in earnings.
- Johnson & Johnson (JNJ) is listed among the Dividend Aristocrats which are companies that have raised their payout for at least 25 years. JNJ has been a great outperformer over the past 20 years, beating the S&P 500 index by a large margin.
- Alexion Pharmaceuticals (ALXN) had $1.03 billion of revenues in its last reported quarter, which was 20% higher than the year before. This growth was accompanied by a 320% increase in GAAP EPS.

A Managed Distribution Policy

Closed-end funds ('CEFs') have several different methods of managing distributions. HQH has decided to have a managed distribution policy. What this means for HQH investors is that each quarterly distribution is made at a rate of 2% of the NAV (Net Asset Value). This is why the distributions vary. Management intends to use net realized capital gains when making quarterly distributions. However, at times management might decide to leave some gains unrealized, this could result in a return of capital to shareholders if the amount of the distribution exceeds net investment income and realized capital gains. Also realized capital gains in excess of the total distributed would be included in a December distribution.

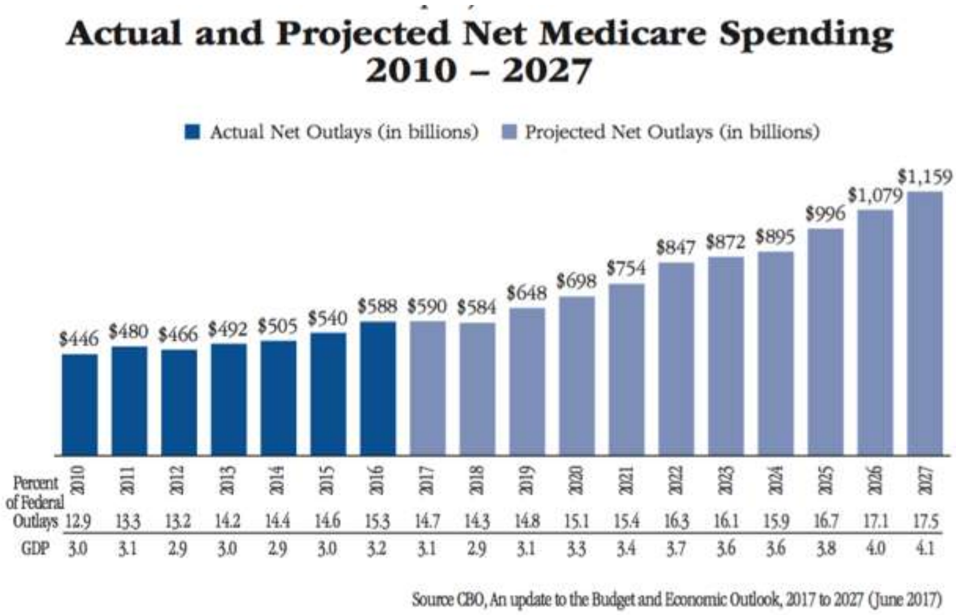
One point that readers and investors should note is that HQH declares and distributes the dividend in form of additional shares, but investors can instruct otherwise and opt to receive the dividends in cash.

Sector Outlook

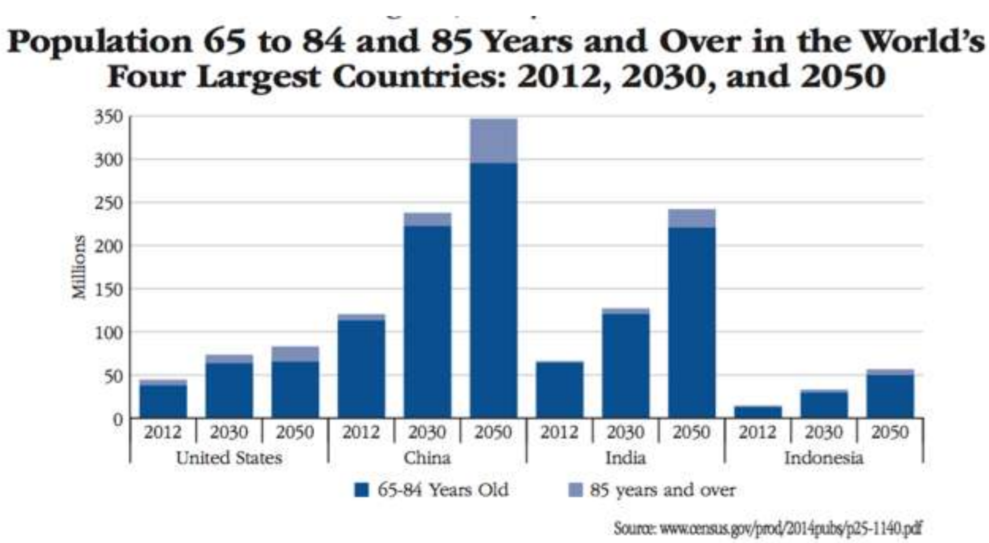
The biotech sector, and the pharma sector in general, are sectors that constitute a kind of crown jewel in the United States economy. The U.S. is the largest market for biopharmaceuticals, accounting for around a third of the global market, and is the world leader in biopharmaceutical research and development. U.S. firms conduct over half the world's research and development (R&D) in pharmaceuticals and hold the intellectual property rights on most new medicines.

It is a sector in which we clearly have world leadership, it produces export revenue, and has every promise to produce increasing export revenue over time as most developed economies now have aging populations who will be seeking pharmaceutical solutions to health problems. While it can be subject to the vagaries of regulatory policy, it is unlikely that the government will take action that would jeopardize our leadership in this important area.

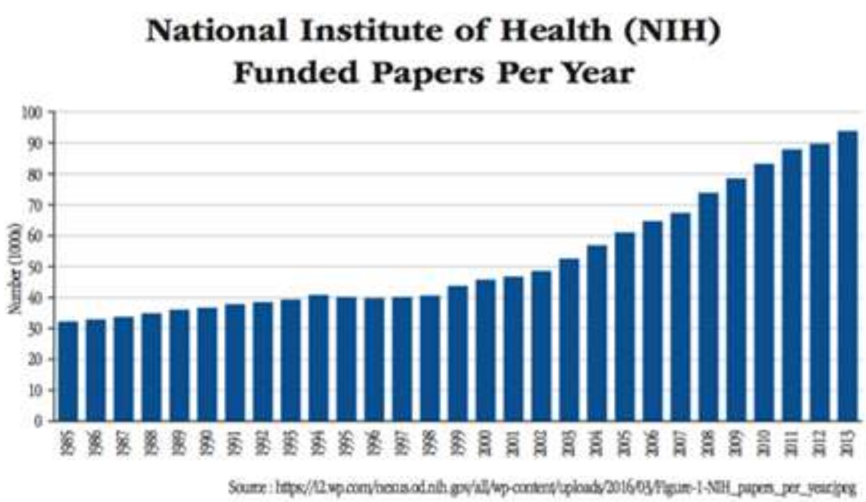
Healthcare spending continues to be a large proportion of US GDP. Within the next decade, healthcare spending is expected to reach 20% of the economy. Prescription drug spending is projected to grow 6.7% per year, followed by 5.8% projected growth for US Medicare spending. These growth projections form a very attractive backdrop for the biotech sector:

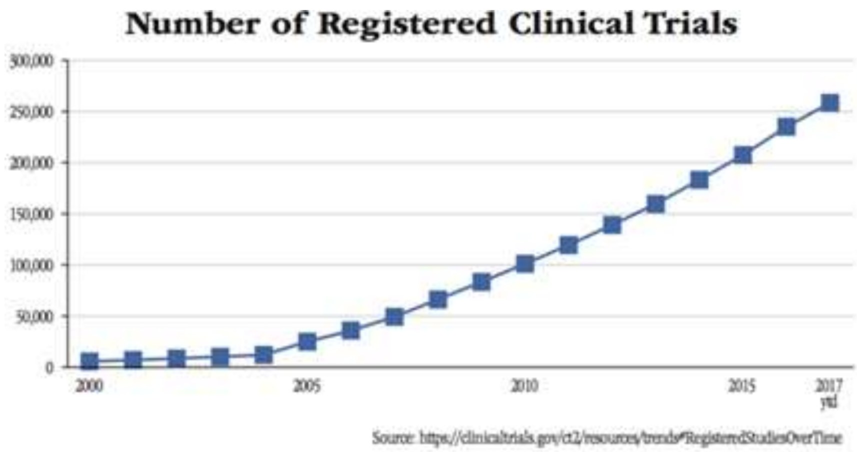


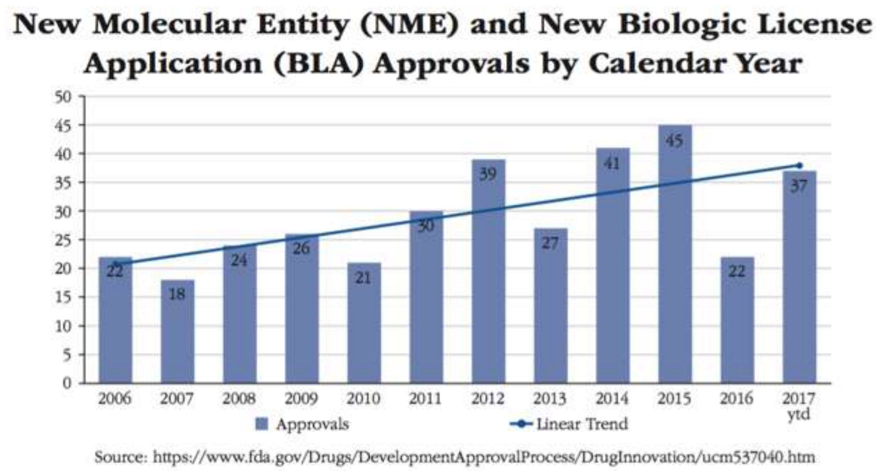
Furthermore, the population of individuals aged above 65 is projected to continue to grow, which helps to drive this demand for healthcare spending:



The biotech sector has met this growing demand for healthcare spending by increasing their capacity for exploration of innovative new drug products. We have seen growing numbers of NHI funded papers, registered clinical trials, and approval of new drugs:







The biotech sector is benefiting from a growing demand for healthcare spending intersecting with an industry eager to meet the challenge. The growing drug pipeline is likely to not only bring new and important medicines to those who need them, but to also lead to a growing industry sector and solid investment returns.

Impact of Tax Reforms on the Sector

One factor that should positively impact the price of healthcare and biotech stocks is the increase in merger and acquisitions ('M&A) activity level. The sector is now awash in capital following the recent tax reforms and the related repatriation of funds to the United States. M&A should be strong in 2019 as is the need of pharma giants to add innovative treatments in order to keep growing. The reason is that larger biopharmas companies with more established drugs may be limited in their ability to grow through sales of existing products due to reaching saturation levels, leaving them more interested in pursuing mergers and acquisitions.

Risks

There are a lot of risks involved with developing new medical products and services. Testing can be quite expensive and many new discoveries fail before ever getting to market. And even when they do get to market another service or product might prove more popular and cause an otherwise great discovery to falter. By investing in HQH, an investor mitigates some of that risk by owning many different companies. It would be very hard for the average investor to have that level of diversification by investing in individual stocks.

It's also possible that HQH may at some point invest too much into the wrong companies or not enough into the right companies. Having said that, the manager of HQH, Tekla Capital Management, is the most experienced fund manager in this field. HQH has been around for over 20 years (or since 1998), and they have done a pretty good job so far.

What is a good price?

Based on a discount to NAV of 10.1%, the current market price of HQH is attractive and trading around its 52 week low.

HQH currently yields 10%, and any price that is more than a 7% discount to NAV is a very attractive entry point for shares of HQH. We also like the option to take the dividends as shares. Because this is optional, it carries no tax benefits, but it makes reinvesting even easier. Based on currently reported NAV, **any price below $21** is a good one.

Share Repurchase Program

HQH announced a share repurchase program on March 22, 2018, under which management may repurchase up to 12% of all outstanding shares. During the year ended September 30, 2018, the Fund repurchased 128,976 shares at a total cost of $2,711,761 at an average discount to NAV to 8.12%.

The share repurchase program can have two positive effects. First of all, it can push share prices up due to the increased buying activity. Secondly, as long as shares are being repurchased at a price which is a discount to NAV, share repurchases tend to increase NAV per share.

Given the unusual (for HQH) discount to NAV, management's decision to institute a share repurchase program is shareholder friendly and could help boost both long-term shareholder value and the short-term price of the fund.

Overview

As of 12/13/2018

	Share Price	NAV	Premium/ Discount
Current	$19.82	$22.06	-10.15%
52 Wk Avg	$22.05	$24.08	-8.43%
52 Wk High	$24.62	$26.47	-5.50%
52 Wk Low	$19.85	$21.94	-10.78%

Regular Distribution Type†	Managed Distribution
Distribution Rate	10.15%
Distribution Amount	$0.5100
Distribution Frequency	Quarterly

Final Thoughts

The 5 to 10-year investment story for the healthcare and biotech sector remains compelling. This is not only a growth sector, but also a defensive one that warrants a place in every diversified portfolio.

For income investors who wish exposure to this sector, buying directly into stocks may not be an option due to the generally low dividends and difficulties in picking up the right stocks. HQH is a sensible and diversified product with a proven track record of strong out-performance. It offers the opportunity to share in the long-term upside of healthcare and biotech stocks while providing a high level of income. The 10% yield more than compensates for some fluctuations in the dividend. Note that over the long-term the dividend payment has been increasing. For the income investor, HQH is a great high yielding fund that provides an exposure to an exciting industry at a lower risk. HQH is a strong buy at the current price.

QMNIX - On 3/23 we sold the remaining positions in this OEF for 2 clients. We will be providing further analysis of this failed Alternative Fund in a future Worth Sharing. We have added the S&P 500, via SPY, the largest tracking ETF, to Morningstar's chart:

THC - an IVA System pick purchased for 3 clients on 3/24 @ 14.72:

Insider Buying:

Trade Date↑	No. Part	Participants	Net Sell (Shares)	Net Buy (Shares)
03/17/2020	1	Fitzgerald Meghan M		6,153
03/16/2020	4	Sutaria Saumya, Quintana N		26,156
03/13/2020	2	Cancelmi Daniel J, Rittenm		30,720
03/02/2020	1	Rittenmeyer Ronald A		10,000

From Morningstar:

COVID Crisis Highlights Moat and Leverage Differences Between HCA and Tenet

Analyst Note | by Julie Utterback Updated Mar 27, 2020

We are taking a fresh look at hospital operators HCA and Tenet. We believe the ongoing shocks to the U.S. healthcare system highlight the different moat ratings and financial strength of the two organizations. Specifically, we are maintaining our narrow moat rating for HCA and our no-moat rating for Tenet. Also, we have increased our uncertainty rating for Tenet to extreme to reflect the refinancing risk that could emerge in the intermediate term. We have trimmed our fair value estimates for both HCA and Tenet, although recent trades remain below both of our new fair value estimates.

We believe the COVID-19 crisis represents two major risks to the industry's near-term profitability. First, operating profits may decline in 2020 due to potential volume, mix, and cost-related concerns related to the COVID-19 outbreak. The second major risk relates to the economic downturn associated with shelter-in-place initiatives, which is causing massive layoffs. If those layoffs are sustained, related payer mix changes could cause hospital services to be reimbursed at significantly lower rates on average, which would constrain profitability. Additionally, the potential for a public option after this election cycle or an influential public option scenario could put significant pressure on profits in 2022 and beyond.

For both firms, we have run bear-case scenarios that consider a weak 2020-21 period followed by an influential public option scenario in 2022 and beyond. In this scenario, HCA maintains ROICs above its weighted average cost of capital, while Tenet's fall well below WACC, which informs our different moat ratings. Also, in this scenario, we think Tenet faces significant refinancing risks when its large bolus of debt maturities start coming due in 2022 and beyond. Overall, we continue to think HCA’s more pronounced operating cost advantages and financial flexibility differentiate it from Tenet, which is reflected in our different moat and uncertainty ratings.

Business Strategy and Outlook

Since late 2017, Tenet has undergone a massive turnaround effort in the wake of an acquisition strategy that left the company with operating inefficiencies and a debt-heavy balance sheet. Led by initiatives endorsed by its largest shareholder, Glenview Capital Management (19% stake in Tenet as of October 2019), Tenet has replaced its CEO, changed 70% of its board, improved governance practices, pruned its portfolio of assets, and undergone a restructuring effort. Operationally, Tenet has focused on flattening layers of management, improving the firm's operating efficiencies both inside and outside the hospital, and increased focus on service quality. All these factors appear to be positively influencing returns on invested capital at Tenet, which began exceeding WACC in 2017 by our calculations for the first time since The Vanguard Group acquisition in 2013.

However, despite all of these positive recent trends related to those strategic initiatives, external factors and Tenet's inflated debt position are creating a murky outlook for the organization. Specifically, we remain concerned about the firm's refinancing risks, starting in 2022 when its bolus of debt maturities start coming due. Excluding any potential grants from the U.S. government during the ongoing COVID-19 crisis, we suspect Tenet's free cash flows will likely come up short of the $775 million to $975 million initially expected by management in 2020. We think the hospital industry, including Tenet, faces many near-term challenges related to volumes, patient mix, and supply and labor costs, among other factors during this crisis. Additionally, with shelter in place orders throughout the U.S., the economy may fall into recession on a sustainable basis, which could negatively influence the insured patient population or payer mix for hospitals. Additionally, we see the potential for U.S. healthcare policy changes, such as a public option, that has the potential to significantly change the payer mix as well, which could cut into the organization's profit potential just as we estimate the COVID-19 crisis is ending. In general, we think these external factors create refinancing risk for Tenet.

Economic Moat

We do not see an economic moat around Tenet. While returns on invested capital including goodwill have risen above capital costs during the past few years under new management, we see significant uncertainty around the sustainability of those returns related to near-term challenges, including the ongoing COVID-19 crisis, and Tenet's own high financial leverage, which could put the company in jeopardy during a liquidity crunch. Until Tenet navigates through this challenging landscape and also deleverages to a more reasonable level with much less intermediate-term refinancing risk, we expect to maintain our no-moat rating.

Operationally, we see some factors that could eventually lead to an economic moat, but we do not think those factors outweigh the intermediate-term refinancing risks at the organization. In general, U.S. healthcare facilities primarily compete at the local level, with competitive strategy most relevant within specific metropolitan statistical areas rather than states or broader geographies. Tenet has improved its local market positions via portfolio additions and divestitures, and at last count in early 2018, management claimed a number-one or -two market position in more than 70% of its markets, which probably has risen after recent divestitures of underperforming facilities. We believe insurers in most of Tenet's markets would have significant incentive to include the organization in their provider networks at reasonable reimbursement rates, which would speak positively to its profit-generating capability under normal circumstances.

Additionally, in the ambulatory surgical center market, Tenet leads the fragmented U.S. landscape with about 5% market share, and ongoing expansion of those facilities should positively influence the company's returns, given their more favorable cash flow profile, payer mix, and capital requirements relative to Tenet's legacy facility infrastructure. Notably, though, the geographic overlap between legacy Tenet's operations and the ambulatory surgical centers it acquired through United Surgical Partners International is not perfect. USPI pioneered a unique strategy, building its ASC portfolio using a three-way partnership model among the firm, physician groups, and a local nonprofit health system to build referral networks. With a substantial portion of those ASCs outside of Tenet's legacy hospital network, there may be limited opportunities for Tenet to leverage some of its USPI facilities into a stronger negotiating position for its legacy hospital operations.

On the management front, Tenet shook up its top team in late 2017, and under the leadership of new Chairman and CEO Ron Rittenmeyer, that new team has implemented significant initiatives around its service capability, quality, efficiency, and facility portfolio that have resulted in higher profitability at the company, including ROICs above WACC. Prior to that, Tenet had struggled to generate returns over capital costs since the 2013 Vanguard acquisition. While we appreciate the significant improvement in profitability and cash flows at the organization since new management took over, we question the sustainability of those changes in the face of its near-term challenges, including its high financial leverage.

Tenet's highly leveraged capital structure could lead to major refinancing risks in the next five years, which contributes to our no-moat view of the organization. At the end of 2019, Tenet owed $14.8 billion of debt and only held $0.2 billion of cash, or a net leverage position in the mid-5s, and that net debt position accounts for most of the firm's enterprise value. While we recognize that the Conifer spin-off planned for mid-2021 could help Tenet reach its net leverage goal of 5.0 times in our base-case scenario, we see significant uncertainty in Tenet's near-term operating environment. Specifically, if profits contract on a sustainable basis, Tenet may have trouble refinancing its obligations at reasonable interest rates or at all, especially when a large bolus of maturities come due between 2022-24.

Fair Value and Profit Drivers

After taking a fresh look at Tenet, we are cutting our fair value estimate to $24 per share from $30 previously, on lower near- and long-term cash flow assumptions. Specifically, we estimate weaker operating results in 2020 primarily on slowing elective surgery trends and inflated costs, including supplies and wages, related to the ongoing COVID-19 crisis followed by a slow recovery in 2021 and beyond. We would note that our adjusted EPS and free cash flow assumptions for 2020 are significantly below management's initial outlook because of those near-term challenges, and significant uncertainty surrounds how this crisis will affect Tenet's 2020 results. Also, given the recently passed stimulus bill, we assume Tenet receives roughly $0.5 billion in a grant in 2020, which accounts for nearly $3 per share of value for the organization.

Overall during the next five years, we assume Tenet's revenue grows 3% compounded annually. This expectation includes the planned spin-off of Conifer in mid-2021. On its remaining businesses, we assume the firm's traditional business grows about 3% compounded annually on 1% volume growth and 2% revenue per patient growth annualized during the next five years. Although the near-term outlook looks murky, we expect strong growth around 5% compounded annually for Tenet's ambulatory care operations during the next five years, as the firm continues to invest in that segment's growth.

On the bottom line, we assume a significant dip in EBITDA margins in 2020 due to near-term challenges (such as the COVID-19 pandemic and related economic downturn) followed by a recovery starting in 2021 until margins reach 2019 levels in 2024. Including the spin-off of Conifer, adjusted earnings per share only grow around 3% compounded annually in our base-case scenario. We expect that spin-off to result in a $1.5 billion debt for debt exchange that allows Tenet to deleverage to its target.

On a free cash flow basis, we assume free cash flow declines to roughly $375 million in 2020 before any government grants (or well below the low end of management's initial outlook of $775 million to $975 million) before rising to nearly $900 million by 2024.

We discount all of our assumptions at an 8% weighted average cost of capital.

Risk and Uncertainty

Tenet's highly leveraged capital structure creates immense sensitivity when trying to pinpoint equity valuation, which is the primary reason why we assign an extreme uncertainty rating to the company.

At the end of 2019, Tenet owed $14.8 billion of debt and only held $0.2 billion of cash, or net leverage in the mid-5s. While we recognize that the Conifer spin-off planned for mid-2021 could help Tenet reach its net leverage goal of 5.0 times, we see significant uncertainty in Tenet's near-term operating environment. Specifically, if profits materially contract, Tenet may have trouble refinancing at reasonable interest rates or at all when a large bolus of maturities come due in 2022-24, and that significant refinancing risk informs our extreme uncertainty rating for Tenet.

The COVID-19 crisis presents two major risks to Tenet's operations. First, the stress it could put on Tenet's healthcare network could lead to lower than expected profits in the near future. For example, we see the potential for higher operating costs, particularly supplies and labor, as Tenet responds to the potential rise in affected patients. Also, the ongoing delay of highly profitable elective procedures would likely constrain Tenet's profitability, as hospitals decide to keep capacity open to accomodate potential COVID-19 patients during the crisis. The second major risk relates to the potential economic recession associated with the social distancing being implemented around the U.S. As people shelter in place, many businesses may see lower demand that eventually leads to layoffs. As patients lose their employer-based insurance, Tenet's hospital services may be reimbursed at significantly lower rates on average, which would negatively affect profitability, as well. While we currently only model in a mild contraction of profitability in 2020 followed by a slow recovery in 2021 and beyond, significant uncertainty surrounds Tenet's near-term outlook.

Stewardship

While we think the new management team has done an admirable job trying to right the ship at Tenet, sins of previous management teams--especially its high financial leverage--could put the company in jeopardy in the intermediate term. Therefore, we give Tenet a poor stewardship grade. If the company can ride out the COVID-19-related shocks to the U.S. healthcare system and potential economic aftershocks without significantly impairing its ability to repay debt obligations, we would reconsider our stewardship rating. For now though, previous management team actions could put the company in jeopardy in the intermediate term, which informs our stewardship rating.

Specifically, Tenet materially inflated its debt/adjusted EBITDA leverage from around 4 times prior to the Vanguard acquisition in 2013 and the USPI transactions that started in 2015 to about 6 times, and Tenet has never returned to pre-2013 leverage levels despite many divestitures. Leverage remained in the mid-5s at of the end of 2019. With the potential for profit contraction during the COVID-19 crisis and beyond, Tenet's leverage actually may rise in the near future rather than decline to its target of 5 times. That high and potentially increasing financial leverage may significantly increase Tenet's refinancing risk, which could especially stress the company when its large maturities start coming due in 2022 and beyond. There is a chance the company could default on its obligations, which reflects poorly primarily on the previous stewards of this organization but ultimately affects today's shareholders.

We would note that the new management team led by Ron Rittenmeyer has been making many operational strides since taking over in late 2017. For example, we think portfolio pruning efforts in the form of divesting non-performing assets and the planned Conifer spin-off are steps in the right direction that could help Tenet deleverage. Rittenmeyer, in particular, appears to have been able to hit the ground running due to his familiarity with the organization after being a board member since 2010. Also, Rittenmeyer's background includes key leadership stints at reorganizing entities. He appears to be using those and other experiences to improve operational efficiencies within Tenet's hospitals by using more detailed analytics to improve cost controls and service quality, leading to better physician and patient experiences, too. We generally see these sorts of changes and the significant turnover on the board as positive for the organization. However, those positive factors may not be enough to prevent potential default on Tenet's obligations given the external risks currently rising around the company, which informs our stewardship rating.

VIISX - With a Risk Ratio (average historical Max. Drawdowns to S&P 500 declines greater than 10% since 2007, excluding the current Bear Market) of **1.0**, compared to **1.6** for GPIIX (orange line) and **1.4** for OBIOX (turquoise line), we have added VIISX to our stable of Foreign Small/Mid Cap OEFs. We have added VSS (Vanguard FTSE All-Wld ex-US SmCp ETF, green line) as a benchmark to Morningstar's chart below. At $3.5B in Total Assets, it is the largest such ETF.

Virtus KAR International Small-Cap I VIISX ★★★★★ Bronze

NAV / 1-Day Return	Total Assets	Adj. Expense Ratio	Expense Ratio	Fee Level	Load
12.95 / 7.29%	1.4 Bil	1.300%	1.300%	High	None

Category	Investment Style	Minimum Initial Investment	Status	SEC Yield	Turnover
US Fund Foreign Small/Mid Growth	Small Growth	100,000	Open	0.82%	30%

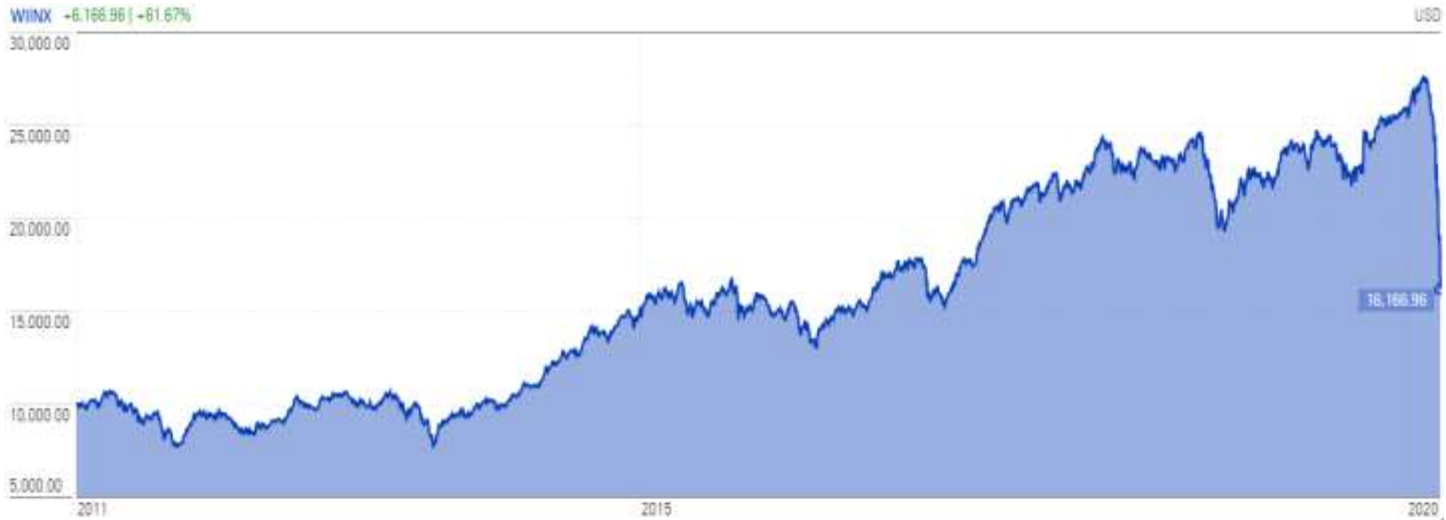
USD | NAV as of Mar 24, 2020 | 1-Day Return as of Mar 24, 2020, 7:26 PM CDT | Analyst Rating as of Jan 30, 2020, 6:00 AM

WAL - a Bank IVA System pick purchased for 4 clients on 3/24 @ 27.63.

Insider Buying:

Trade Date	No. Part	Participants	Net Sell (Shares)	Net Buy (Shares)
03/11/2020	1	Nave James E		10,000
03/09/2020	2	Vecchione Kenneth A, Gibbc		7,500

WIINX - On 3/23 we sold this Morningstar 5 star rated India Mid Growth OEF for 2 clients. While India was one of the very few EMs we were bullish on, it's Stock Market hadn't adjusted to the likely impact of COVID-19. Our timing was literally a day late:



From this morning's BCA | Daily Insights:

Indian Equities: A Bleak Outlook

On Tuesday, BCA Research's Emerging Markets Strategy service downgraded Indian equities from neutral to underweight.

Indian stock prices relative to EM in US dollars are breaking below a critical support line. As this technical support fails to hold, Indian equities will likely relapse further versus their EM peers.

The total lockdown announced by Prime Minister Narendra Modi last week will create significant adverse ripple effects on household incomes, consumption and banks.

Critically, India lacks the social safety nets available in advanced economies as well as the mechanism for the government to deliver rapid financial assistance to individuals and companies. Along with extremely underdeveloped medical infrastructure, this creates significant complexities and challenges for the government in channeling meaningful humanitarian and financial support to combat the coronavirus pandemic.

The fiscal stimulus which was announced on March 26 to counter COVID-19 amounts to only about 0.9% of GDP and is too small to move the economic needle. Furthermore, with economic activity frozen due to the lockdown, consumption and investment will plunge before any stimulus gains traction.

Consumer spending accounts for 66% of GDP and has been the cornerstone of Indian economic growth over the past 10 years. The drop in household income will produce an unprecedented decline in consumer spending. This will devastate many businesses, large and small.

Bottom Line: We have downgraded Indian stocks from neutral to underweight within an EM equity benchmark portfolio. Notably, this bourse has lately underperformed despite collapsing oil prices. This is a manifestation of a worsening backdrop.