HEFTER, LESHEM, MARGOLIS

CAPITAL MANAGEMENT GROUP

The Hefter Report – March 2020

After OPEC was unable to come to terms on a supply cut, oil prices plummeted adding to downward pressure on interest rates and equities. Lower oil prices typically discourage drilling and exploration. This can also lead to layoffs and an economic downturn in oil producing areas.

Some will argue that declining prices at the pump will benefit consumers, and that's true. However we think with the countervailing force of economic activity dropping globally due to the Coronavirus, lower oil prices add to deflationary pressure which could lead to recession.

The industries most adversely affected by this are energy, manufacturing, materials, financials, and more broadly cyclicals and industrials. We have been shifting away from these areas where possible.

We believe stocks could see more downside before bottoming sometime later this year. If you think you will need to withdraw funds from your account in 2020, please let us know and we can lower your equity exposure. If you will not be needing money from your portfolio this year, we believe that repercussions from virus fears will abate within a year and stocks will rally.

It has been reported that legendary investor Warren Buffett is buying stocks during this correction*. We think that although the near term will be volatile he will be rewarded in the long run. Our philosophy is to be long term investors, not to panic, and to look for opportunities when panic occurs.

Last week's unemployment numbers reflected an extremely strong economy that was firing on all cylinders prior to the "black swan" spread of the Coronavirus. The resulting big drop in stock prices is very painful and may get worse. However history has shown that those who are able to endure the suffering end up better off than those who sell on the decline.

As always, please call us with any questions.

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