LVS ADVISORY

Investment Results	2019	Year-To-Date 2020	Since Inception[1]
LVS Defensive	**9.3%**	**(0.2%)**	**9.1%**
Benchmark: S&P Long-Only Merger Arb Index	*6.1%*	*0.2%*	*6.3%*
LVS Growth	**-**	**(3.4%)**	**(3.4%)**
Benchmark: S&P 500 Index	-	*(8.3%)*	*(8.3%)*

Note: results presented gross of advisory fees and net of brokerage commissions. Investment results are as of February 29, 2020.
(1) LVS Defensive was incepted on January 1, 2019. LVS Growth was incepted on January 1, 2020.

March 5, 2020

Dear clients and friends,

Conditions in financial markets can change rapidly and the first quarter of 2020 is a great case study for how quickly investor sentiment can shift. The US stock market, represented by the S&P 500, peaked on February 19th and then fell 13% in the span of just one week -- setting a new record for the quickest 10% stock market correction in history. As of the end of February, the US stock market was down approximately 8.3% from the start of the year.

While I am never happy to see my portfolio decline in value, I am quite pleased with how LVS Advisory's two active investment strategies have performed so far this year. The LVS Defensive portfolio is nearly flat on the year and the LVS Growth portfolio has avoided more than half of the decline in the broader stock market.

Past results are fine to recap but where do we go from here and how should investors be positioned? I'd like to share some thoughts on how investors can prepare for and benefit from a period of declining stock prices.

HAVE A PLAN

The first step in taking advantage of lower stock prices happens before a market sell-off. With proper planning, investors should be prepared for whatever plays out in the market (good or bad) with room to make adjustments along the way.

The cornerstone of any financial plan is diversification. If an investor goes into a crash fully-invested in the stock market, not much can be done. But a portfolio with an allocation to less-risky stocks, bonds, or cash, can be re-allocated opportunistically.

It helps to understand that not all financial assets move together. Investors who hold defensive stocks (low beta, non-cyclical, unlevered, etc.) into a sell-off are likely to see less intense declines. While investors who hold bonds can make money when stocks fall. To illustrate, for the first 2 months of 2020, the US stock market is down 8.3% while the US aggregate bond market index is *up 3.6%*. A portfolio with an allocation to both would have performed better than a portfolio only containing stocks and with lower portfolio volatility.

As important as it is to have a financial plan, it is equally important to stick to it. The worst thing an investor can do is make an emotional decision at the wrong time by going all in at the top of a market or selling everything at the bottom.

IS THIS A GOOD TIME TO BUY STOCKS?

It could be a good time to buy stock but no one knows exactly where stocks will be in 12 months (which is why we diversify). Economic fallout from Covid-19 could cause the next recession or it could just end up being another short-term panic that created a buying opportunity.

The rapid decline in the stock market and recent actions by the US Federal Reserve indicate that an economic recession could be in the cards. My November 2019 letter discussed what happened during the last two recessions in 2001 and 2008. To summarize, the stock market fell over 40% in both cases but investors who stuck through the downturns ended up with strong gains within 5 years (even if they invested right before the crashes).

There are two important takeaways from that data. First, if our economy is pushed into a recession, the 13% lost last month is just the beginning. Second, investors who invest after prices have fallen and do not sell can do extremely well. These two points seemingly contradict each other but the resolution is clear: stock market investors need a long enough investment time horizon to hold through a downturn.

This brings us to execution.

If you are in the enviable position of having liquidity to invest opportunistically, it makes the most sense to dollar-cost-average into a declining stock market. Down 13% is likely a good starting point, but history shows that it can take several months and even years for a declining market to hit bottom. Gradually moving a portion of a portfolio from cash or bonds into stocks is a great way to gain exposure on the way down in order to benefit when the investment environment improves.

THE VALUE OF ACTIVE MANAGEMENT

Passively investing in highly diversified funds is a great foundation for a portfolio but adding exposure to actively managed funds can improve outcomes. A key advantage of active management is the ability to more consciously manage risks. As a result, active investing tends to really shine during periods of declining prices and volatility.

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The LVS Defensive portfolio is managed to prioritize protecting assets during market sell-offs. It has the secondary goal of out-performing other "low-risk" alternatives. If we protect assets when prices fall, we can opportunistically invest and benefit from the recovery.

The LVS Growth portfolio only invests in "high-quality" businesses. These are competitively-advantaged companies with strong balance sheets and significant growth potential. The companies in our growth portfolio should be able to come out of a recession stronger than they went in.

LVS Advisory assists clients in allocating towards both active and passive investments. The right allocation of funds ultimately depends on each client's needs and goals.

UNTIL NEXT TIME

Financial market volatility is never welcomed but can actually be a healthy check on investor sentiment. Over the past year it seems many investors forgot that stocks can also go down. Sentiment swinging too much in one way or the other is what leads to panic selling or panic buying.

Don't panic! Have a plan. Know what you are invested in and why. This will put you in a position to make investment decisions rationally and opportunistically, not emotionally.

Best regards,

Luis Sanchez

Luis V. Sanchez CFA

ABOUT LVS ADVISORY

LVS Advisory is a full-service financial advisory firm providing active investment management, financial planning, and institutional investment research services for individuals, families, and institutions. Luis V. Sanchez CFA is the Founder and Managing Partner of LVS Advisory. Luis' professional experience includes working in investment banking, consulting, and investment management. Luis is a licensed Investment Adviser Representative and a CFA Charterholder. LVS Advisory LLC is a Registered Investment Adviser based in New York City.

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