Evergreen Client Update from CEO, Tyler Hay

Introduction
With market conditions and world events evolving on a daily basis, Evergreen has been communicating its internal sentiments to clients and followers more frequently than usual. Most of you are likely familiar with the *Evergreen Virtual Advisor*, a weekly newsletter published by Evergreen. *The Evergreen Update* is a new "ad hoc" publication that is intended to provide brief commentary on world events and markets as things unfold. The update below comes from a letter published to clients by Evergreen's CEO, Tyler Hay, on Wednesday, March 18th 2020.

If you are an Evergreen client or regular *EVA* reader, you are more than likely aware that we have been expecting - and preparing - for a bear market for some time now. These times may feel uncomfortable and uncertain to most investors, but to us corrections (even big ones) are a normal part of the market cycle and a great opportunity to put money to work. We are privileged to work with hundreds of loyal clients, seeking to both preserve their wealth and grow their assets. If you or someone you know is interested in working with Evergreen and would like to meet with one of our Wealth Consultants, please fill out this client compatibility survey and we will be in touch. We hope you enjoy this new publication format!

Dear Evergreen Client,

As the effects of the coronavirus continue to reverberate through our daily lives, our goal is to stay in ongoing communication with our clients. Beyond communicating, we are also acting. Our trading team has been getting in early and staying late to execute the decisions of our investment committee. Already, we are seeing some stocks and bonds that offer tremendous long term value. The plan is to keep publishing these updates in addition to our weekly newsletter for the time being. As always, we appreciate your loyalty and trust.

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Flattening the Curve
If you haven't heard this term yet, you will. The coronavirus situation has gone in one short month from something many people felt was a gross exaggeration—a mere flu—to what's now widely recognized as a global pandemic. I will get to the financial market implications later in this note, but for now let's focus on the main theme of this piece, which is slowing the rate at which this virus spreads. With a cure or vaccine unlikely to come any time soon, the best defense is to slow the rate of transmission. Since my piece last week, we've already seen unprecedented changes to daily American life, a big positive for containment though brutal for the economy. China—which was the epicenter of this outbreak—took drastic measures enforcing lockdowns of 45 million people. The results seem to suggest it has worked. Here is a link showing the timeline and subsequent effects of their measures. Note Chart 7.

I'd make two comments about this data. First, it's from China so it must be viewed with some skepticism. Second, the United States almost certainly will not act as quickly or as drastically as China. It's valuable to consider that other countries, which have adopted similar approaches

including South Korea, Japan, and Singapore all have seen a dramatic deceleration in the spread of this disease. At present, this seems to present encouraging news. However, it raises some serious questions as it relates to the situation facing us here in the U.S. Are we much further behind in terms of our time to act? Are we going to take steps drastic enough to curb transmission? The jury remains out, and I suspect that if the data suggests the virus is continuing to spread at an exponential rate, then the measures taken will become increasingly drastic. I've included a very sobering article that simulates how effective are different degrees of isolation practices in constraining the spread of disease.

Where is the Cavalry?

In 2008-09 we faced a solvency crisis. The banking system teetered on the brink of collapse as the fears of bankruptcies spread to almost every major financial institution. It created a run on banks as people worried their money would simply disappear. In turn, this caused panic throughout the stock market. It was imperative to support Wall Street to protect Main Street.

Today, the situation is precisely the opposite. Let me use the restaurant industry as a proxy for the present problem. The first impact occurred weeks ago as "overly cautious" patrons began to curtail dining out due to fear of crowds causing only minor financial disruptions for owners. Then, as we've seen here in Seattle, the slowing traffic became so severe that many restaurants were forced to close. To some, this might not seem like a big deal, because many people have stocked up enough food or are able to get groceries delivered to their homes. But this ignores the economic ripple effect that's taking place. A restaurant owner who has had to close their restaurant cannot pay rent, so landlords get squeezed as well. The cooks and waiters are out a job and, as we know, most American's live paycheck to paycheck. These workers cannot afford food for their families. They cannot pay rent or afford their mortgages any longer. This is not specific to the food services industry. The ripple effect of the coronavirus is affecting hotels, casinos, airlines, retailers, the oil industry, etc. This is hugely disruptive in large part because of its pace and scope. In a typical financial slowdown, the impact to businesses means lower revenue, some belt-tightening by businesses, but most companies can weather the storm. This is not the case with the present situation. Small businesses (for now) are literally evaporating out of thin air.

This is an unprecedented economic event and it will take steps of equal magnitude to blunt the impacts. Make no mistake--some form of aid is coming. You know times are tough because Democrats and Republicans are actually working together, perhaps the first time since the Great Recession. The rate of economic damage, or alternatively the pace of recovery will be directly impacted by the effectiveness of the policy response. Markets are no doubt looking closely at the steps being taken and could rally significantly should they deem them appropriate. Frankly, the longer it takes to tackle the problem, the bigger the bill is likely to be to taxpayers down the road.

Another key difference from the last recession I'd like to point out is that much of the aid needed to be directly injected into public companies back then. This was a relatively straightforward task. The government made direct loans to the financial sector in return for an equity kicker (known as warrants). Once the government put a safety net under the banks, lending to the private sector resumed. Today, it's the small businesses that make up over half the workforce who need the help. It will take very creative ideas to get them help, and time is not on our side.

This is not the financial crisis all over again, though it may feel like it. Banks are in far better shape than they were in 2008. However, if widespread bankruptcies are allowed to occur, then that statement may no longer ring true.

If you have seen one bear market, then you've seen exactly one bear market. If you frequently hike the same trail you get to know it. You become aware when you're approaching a dangerous section or a cinematic vista and prepare yourself accordingly. Being an investor is like going on a hike, but never repeating the same trail. Good investors or hikers learn from previous hikes. They absorb information through experiences that can help them in the future.

Unfortunately, since each situation is different, one can never be sure of what may lie ahead. This may seem like a silly point, but I think it's critical when thinking about our investment psychology. If we had a repeat of the financial crisis one could reasonably say, that once the government provided enough support for the financial system, the war had been won and it was safe to buy. Only with the passage of time will we be able to look back and know when the turning point of our current predicament will have occurred. Sure, we could speculate. It may be the pending government stimulus package, the increase in testing, or, what I think to be most likely, the curve beginning to flatten marking a slowdown in outbreaks. But one thing is for certain: No one knows and that's what makes investing so difficult. You have to invest without perfect clarity or total information.

The Anatomy and Psychology of a Market Crash

Since 1957, we have experienced 10 bear markets (market declines larger than 20%). On average, they have lasted 11 months and with a decline of 28%. Now, this bear market has taken place at what seems like the speed of light as the market, through today, has fallen 29% in the past 20 trading days. As of today, March 18th, we are around the typical bear market price decline. Therefore, we believe this to be an advantageous point in time to be deploying capital and buying into market weakness. The markets could continue lower, which is why we are leaving room to become even more opportunistic should markets fall further.

Certainly, if the markets snapped back to new highs tomorrow most wouldn't kick themselves for not going "all in" but one would likely lament not buying anything at all. I'd like to add another point about psychology. Market's don't normally fall 28% or more and then snap back in the blink of an eye. If they did, investing would be easy. Typically, the underlying problem sends markets on a roller coaster ride with huge swings both up and down. In the previous financial crisis, some of the largest single day moves to the upside occurred during that disastrous crash. This drives people crazy and confuses them as they think they've figured out a trend only to be confused again and again. This then perpetuates a feeling of hopelessness because investors can't "figure out" what markets are doing. In reality, the problem is that markets themselves don't know what they are doing. Instead of trying to time the markets, disciplined investors outline a rational plan and then follow it during a panic. Let me tell you, the latter is much more difficult than the former.

The Road to Recovery

We are facing an economic concussion and only in recent days has it become clear the type of medical and economic response required to meet the challenges. Many think that we are weeks away from putting this in the rear-view mirror, while others are looking to summer, and some are expecting it could take even longer. Near-term stimulus offered by the government could provide a "floor" for markets should the measures be effective. However, I find it hard to imagine the markets will completely stabilize while so much remains unknown about the current situation.

Without adequate testing, we cannot put much faith in how many cases currently exist in the U.S. or how fast coronavirus is spreading.

This creates a problem not only because we cannot judge the scope of the problem, but people cannot adequately adjust their behavior. If every American, had the ability to test, we could reasonably allow healthy individuals to commence living a normal life, while those infected would remain home. Given, the ability to test all American's is a long way off we can look to a bleaker metric, which is total deaths presently recorded as 116 so far. Estimates are the virus kills between 1-3% of infected people. One, could then reasonably estimate, that the amount of infections currently stands around 10,000 in the United States.

As I opened with, it now seems that the government is focused on "flattening the infection curve" and frankly I think that will be the key metric that serves as the turning point for markets. Sure, there could be things like the stimulus package that gives the markets a short-term adrenalin injection but expect those to be short-lived and fleeting. Determining when the curve flattens has many variables. Weather, social distancing practices, work policies, school closures, unknown existing cases, and asymptomatic spreading all factor into how long this could take to recover.

Freedom Doesn't Come Free
In America, we place tremendous value on our civil liberties. Said plainly, American's don't like being told what to do by the government. The current messaging from the government seems to be a request that American's self-impose measures necessary to slow the spread of the disease. This is an unprecedented social experiment. In many of the other countries that have been effective in slowing the spread of disease, steps taken by the government were dictated, not suggested, protocols. If we don't see progress in the coming days or weeks, I would expect our daily lives to become even more affected. There's already evidence of this with discussions of curfew and limited domestic travel. I hope that the current steps being asked of the American people are both enough in measure and followed in practice—but only time will tell.

Conclusion
This market decline has been both stunning in its pace and magnitude. Thankfully, our portfolios were positioned far more defensively than the equity market as a whole. Were this to worsen, investors who have the ability and fortitude to be buyers when most are selling will lock in fantastic long-term returns. As we stated during the financial crisis, the best way to permanently lose capital is to sell at, or close to, the bottom, which undoubtedly many will do. Given the large reserves of safe securities that we hold broadly for clients, we have been and will continue to look for opportunities as the panic distorts prices away from their intrinsic value. It's important to remember that in Asia, roughly two weeks after adopting effective measures meant to slow the spread of the virus, visible positive results were seen. This could take longer in the US if the current steps are not enough to stem the tide, but we do expect the outbreak to slow as evidenced by the results in other countries. In the meantime, we will rely on the blueprint we've used in past crises for turning the panic and fear into opportunity for our investors.

You can expect more updates from us as this continues to unfold. Please do not hesitate to reach out to your advisor should you have any questions.

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