MIDWEST
FINANCIAL GROUP INC

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MIDWEST FINANCIAL GROUP

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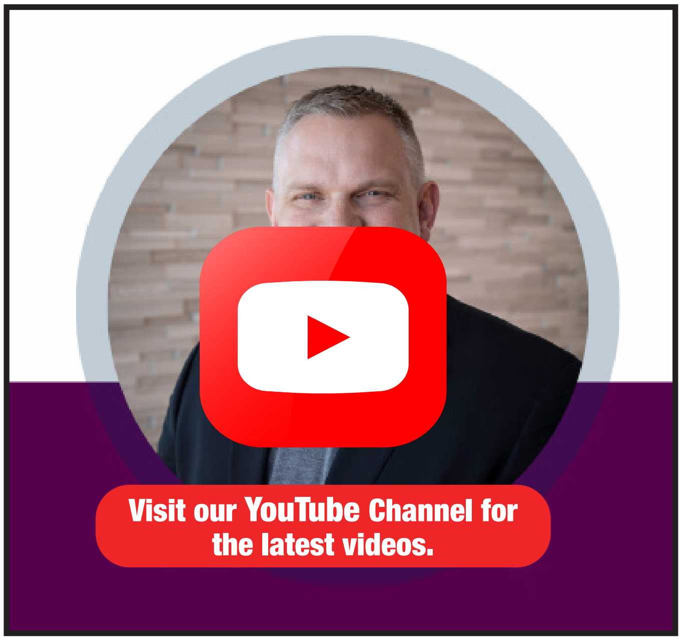
Q2 SMART MONEY

INVESTMENT INSIGHTS

Stick to your plan...focus on what really matters

As I sat down to pen this message, I knew what I wanted to say, I knew what needed to be said, and I knew what I wanted you to learn. What I didn't know was how to start. Should I lightly tell you to just skip opening your statements this quarter, that we both know what they're going to look like? Should I tell you that it is very possible that the worst is yet to come? We both know that it could be. It would be irresponsible for me to tell you that it is going to quickly get better, because we don't know that. So, as we sit here, this is what I decided on:

Take a moment and close your eyes, and as you do take a deep breath and be thankful for what you have, as there are many that are going through this and are having a much more difficult time understanding how they will manage and what they will have when we get to the other side. Then remind yourself - we will get through to the other side.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Focus on what we know

This will be a longer letter than what I normally like to send, but the environment dictates that there is more information to pass along than in a normal quarter.

Let's focus on what we know. We know that the market over the last quarter has seen volatility as we've rarely seen in the past. The market has never gone down this fast.

- 8 of the largest single day point decreases in the Dow have been in 2020
    - The other two were in 2018

- 7 of the largest single day point movements up in the Dow have occurred in 2020
    - 2 of the other 3 were in October of 2008, and the 3rd was the day after Christmas in 2018

Now, I will follow that with the fact that the point movement up or down isn't as important as the percentage change. It is more important to look at the percentage change rather than the point change. For example, on March 16th the Dow dropped almost 3000 points, which was almost exactly as painful as the 38 point drop it had on October 28th, 1929. Both were just under 13% drops and neither were as bad as the 508-point drop in October of 1987, which erased 22% of the index's value in one day. On a percentage basis, this historic downturn in the markets has only produced 1 day that cracked the top 10 UP days, and only 2 days that cracked the top 10 DOWN days. Remember that perspective and context are the keys to any number that the media presents to you. There is a reason that much of the time they focus on the point moves and not the percentage moves: the market is larger, so the points are bigger, even if their impact is not.

We also know that the impacts of the Covid-19 virus are going to have an impact that stretches for years into the future. In the short term, navigating the decline in both US and Global economic production due to the imposed shutdowns will hurt both people and companies. There are companies today that were open on February 19th and that have closed their doors, never to open again. There are companies that were very successful that are going to be part of what will probably be an increase in merger and acquisition activity over the next year. And there are companies that are going to open new facilities that formerly produced outside of the United States that the US consumer has decided they are willing to pay a little bit more for to be made inside the United States. Manufacturing in the United States is very likely to see a rebound with companies wanting key parts of their supply chain to be within US borders.

STOP
STOP
STOP
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STOP
COVID19

Changes Are Coming

In the mid-to longer-term, you are probably going to see an increased focus on the ability of the CDC and FDA to more rapidly adjust and respond to approval changes, as well as the US healthcare industry to create plans and procedures to rapidly stand up and stand down their treatment volume. Changes are coming, and these could be a positive byproduct of the event. What we don't know is how much, if any, of the habits of the US consumer will change after the quarantine period. Will this have an impact on the standard workplace and be the catalyst to cause a greater move to generally work from home? Will it cause long term changes in travel? These and related items are what we will continue to watch as they will have an impact on the areas of the economy that will perform best in this potentially new environment.

Following the MFG investment committee's meeting on April 1st, we are making one adjustment to our models. Within our 60/40 and 50/50 models, we are replacing our position in iShares Agg with PIMCO's GNMA and Government Securities fund. Our holding in iShares Agg (which is a broad representation of the entire US bond market) performed exactly as we hoped that it would. However, because bond price value and interest rates have an inverse relationship (and interest rates are functionally back to zero), it is more likely that we will have a flat and rising interest rate environment over the next couple of years than a falling rate environment. The PIMCO fund is made up mostly of agency backed mortgages, which is a portion of the MBS market that the Fed is supporting and into which they indicated that they will be buying. We feel this adjustment will continue to provide near-term stability as well continued strong positioning in the future.

The movements in the stock market has been something that, while unexpectedly fast, are in line with the levels we would expect to see in a typical bear market. A bear market occurs when the drop in an index is 20% or greater from its previous peak. So, the bull market that began in March of 2009, ended on February 19th of this year, and a bear market began. Bear markets are historically very short as compared to their rising market counterparts, and we feel that this will also not lead to a long-term recession. Should GDP hit a point that a technical recession occurs, we will discuss next quarter.

The credit and bond markets, though, have not performed as we would see in a slower and more controlled decline in the stock market, or in a typical bear market or recession. If you remember the 2008 financial crisis, it was a decline over months and ultimately a couple of years before improvement started. This change has been expedited because, instead of people being unemployed because of economic changes or businesses closing because of consumer behavior, the government has ordered people out of work and businesses closed. While this has been necessary to deal with the realities of this virus, it is not an indication of the strength of the US economy or the US consumer. Because this market movement has been accompanied by a government mandated shut down of economic activity, there has been a rush to cash from all asset classes (again, that took place in days, not months). This means instead of running to safety, fixed income, bond and stockholders alike have been running to cash, which has pushed prices to levels that typically aren't seen. Bond funds, even when not being pushed because of liquidity needs, are forced to mark to market their underlying bonds, which can cause a change in the share price, even if the fund itself hasn't had a change. If you would like to talk through this process more, please let me know (it would take several more pages to explain this process). What I want you to take away from this is that, while our bond funds have seen some muted downward movement in share price, it is not a reflection of the health of the fund or a concern regarding liquidity. As of this writing, the funds are well capitalized, and I am in frequent contact with the companies to ensure our positioning remains in line with our goals.

Now Is The Time To Align Your Plan To Your Goals

All of that said – what does this mean for you? We want you to know that our bucketed, personalized, and income focused planning method performed exactly as we would have hoped that it would, given the drastic moves in the stock market and the major dislocations in the bond and credit markets.

We have been saying for several years that there would be a reversion in the market and that it would probably be in the 30% to 35% range, and that having a comprehensive plan in place would allow your portfolio to work through that change without deviation from your long-term goals, and short-term plans. We obviously had no idea that this is how it would come about, but in the end, no one knows what the catalyst would be. What we do know is that changes in the market, like this, are normal and will happen again. Just as it couldn't be predicted this time, it won't be predicted next time. Remaining invested and having a plan that removes the guessing from asset management is the MFG approach. A plan that allows you to focus on what really matters – your family, your health, your hobbies, your businesses, and your life – is paramount. Our planning will take care of your investments and the path towards your goals, and our team will be here to answer your questions along the way.

Over the coming weeks and months, the world will move to it's new normal, and we will be released back into society. A great lesson from this event in history is that you need to periodically remember to ask yourself: are you focused on the goals in your life that are truly important and allow you to enjoy what matters? and do you have a plan in place that lets you meet those goals? If so, then you are truly rich. If not, now is the time to align your plan to your goals.

Let us know how we can help you with that process and let us know which of your family and friends could use the same guidance. Stay safe, stay healthy, stay in touch, and stay focused on what matters.

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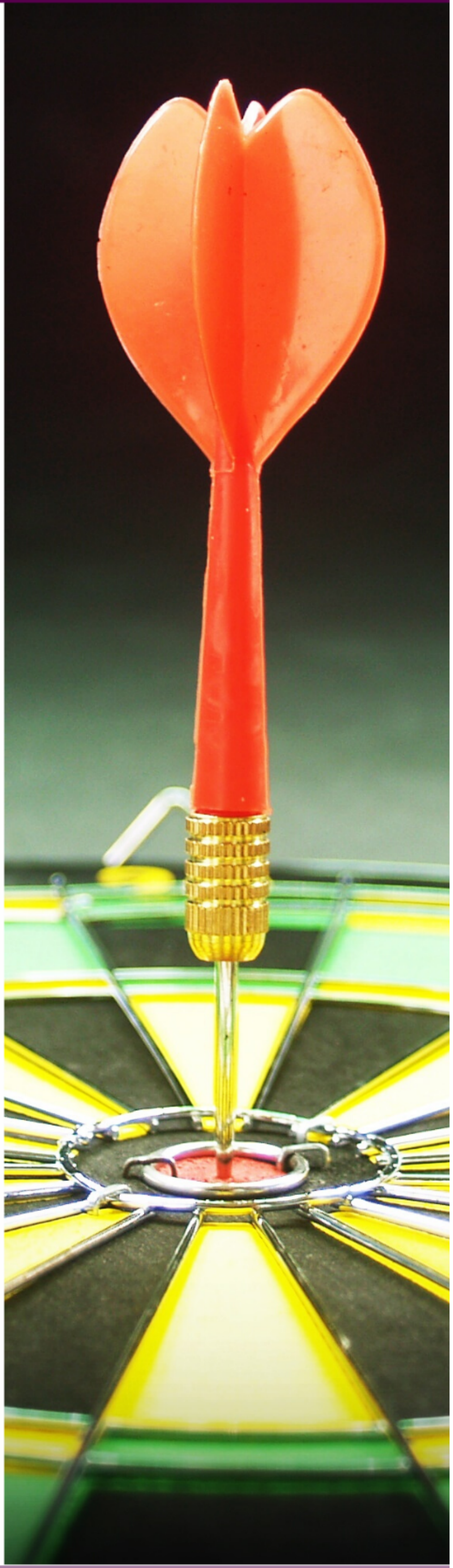

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