Hughes Investment Advisory Service LLC

April 3, 2020

Dear Clients and Investors,

With U.S. stocks closing out their worst month since 2008 – and the S&P 500 having its worst quarter in history (-19.6%) it's time once again for our quarterly review…You have been hearing from me somewhat regularly over the last 5 weeks so I will be reviewing and expanding on some of these same thoughts.

The markets remain very volatile, but they are in fact starting to calm down from their most severe weeks earlier this quarter. The Volatility Index, or VIX, tumbled 29% this past week, to finish below 50 for the first time since early March – this is a good sign as many investors look for indications below 50 before re-entering the equity markets. The DJIA average dropped 3% this past week and we call that progress!

The first weeks of the Covid-19 crisis saw investors selling anything that moved, with little regard for companies' individual prospects. The threat of the virus to people's health and the economy became very real, very fast – and gaining some liquidity seemed to be the overriding objective. Investors had fallen into one of two camps: They either sat tight and nervously rode the volatility or rushed to bail out of stocks and pad their portfolios with Treasuries or cash. We did the former but simultaneously fine-tuned the portfolios to position for the other side of this crisis – This process continues but at a slower pace as I believe the last few weeks and now is the time for decisive, opportunistic moves while assuming that the world as we know it is not coming to an end.

The monetary and fiscal stimulus from the Federal Reserve, Treasury Dept and pols in Washington D.C. swooped in to pause the bleeding and restored some optimism boosting the DOW 21% in just three days two weeks ago. Since then markets have ground lower but with less volatility as discussed above. Our government has taken the big and initial steps needed to restore liquidity to the financial system with the Fed having cut rates to zero, the Fed and Treasury have taken steps to keep the financial plumbing of the markets operating with multiple new lines of bond purchasing and other guarantees. On the fiscal side the 2.2 trillion-dollar aid package has been approved and is now working its way into the system. There is talk of a phase 4 package which may include more funds for small business and possibly finally an infrastructure bill.

So, where does that leave us as we enter the 2nd quarter? Individual stocks and sectors are still seeing plenty of action – and the dispersion between the best and worst performers has become enormous. I believe this is a sign that the stock market has already reached an "internal low". An "internal low" occurs when the intensity of the selling pressure as well as the fear and indiscriminate selling reaches a crescendo. While the overall market indexes may continue to decline, the movement of stocks within the index becomes less synchronized. Once the internal low is passed, there tends to be greater differentiation among stocks within the market.

Of course, all of what has happened over the last three months and what will happen in the quarters ahead will depend on what is discussed above but more about what happens next on the medical front with the Covid-19 virus. Like many of you I have been glued to the daily White House briefings and other commentary on the spread of the virus and the measures being taken to combat the spread and find a vaccine. I'm convinced that rapid and widespread testing is the solution to stopping the spread along with an eventual vaccine that will hopefully be fast tracked, to the degree possible, for the quickest possible introduction into the overall population. I'm happy to say that many of the companies that we own(ed) are an important part of this process. In fact, despite the carnage to our overall portfolios during Q1, many of us owned 3 of the top 10 performing S&P 500 stocks during Q1, namely, Regeneron, Gilead and Clorox.

The eventual answers to these two Covid-19 questions are what will determine the overall damage to the economy and markets in the period ahead. We still do not have answers to these questions. It does appear that the spread and devastation of the virus is tracking the models laid out by Dr Fauchi and others in recent weeks which still leads me to believe that the overall timetable is still intact. If this timetable remains, and the 2.2 trillion stimulus is administered efficiently, plus other stimulus, then I expect that the markets will continue the recovery described above.

The companies that we own throughout the portfolios are still the best in the world at what they do. My confidence in our companies, our government's ability to respond to this crisis and the American people remains steadfast. We will get through this and life will return to normal, it's only a matter of time. I remain on watch listening and reading the latest news, market activity and economic indicators. I will continue upgrading and adjusting portfolios accordingly. Please do not hesitate to give me a call to discuss the above analysis.

At this time, I continue to favor large-cap, dividend paying, US based multi-national companies with strong balance sheets. We love businesses with irreplaceable brand names, high barriers to entry, wide margins, grow their dividends and have modest debt. Risk/reward continues to favor equities over fixed income. Select REIT's and specialized bond and income funds continue to look good as income producers.

Sincerely,
J. Britt Hughes
Investment Advisor Representative
Bay Colony Advisory Group, Inc.
britthughes@hias.com
www.hiasllc.com

422 Housatonic Ave. Stratford, Ct 06615 203-209-4797