

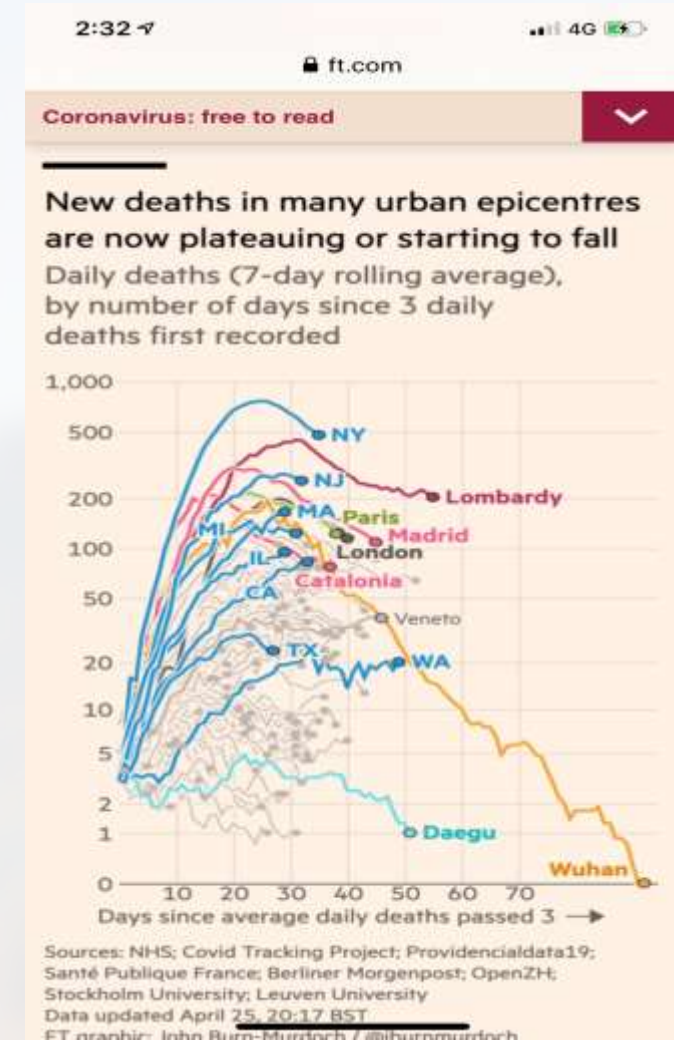
CASTLESTONE  
MANAGEMENT



Advisor Bulletin April  
28/04/2020

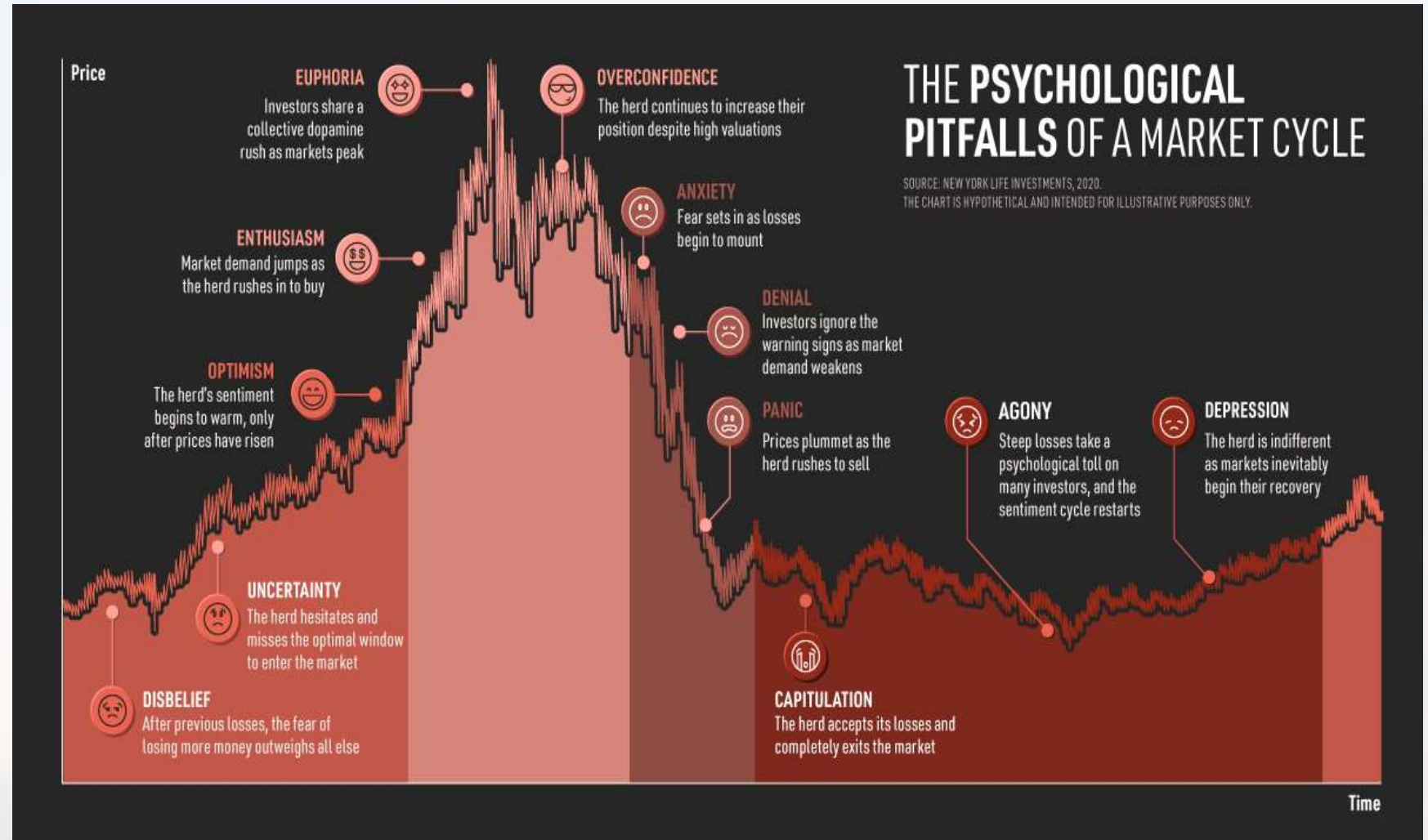
## Urban Epicenters see a peak in COVID-19 Cases

- The Cycle of the pandemic seems to be peaking with an end in sight
- A second wave of COVID-19 is possible
- Some Lockdowns are being removed slowly



## The Time to Allocate is Now

- Investing during the agony/depression stage provides the best opportunity for gains
- It appears we are entering the agony/depression stage now
- Waiting for the optimism stage may hurt returns

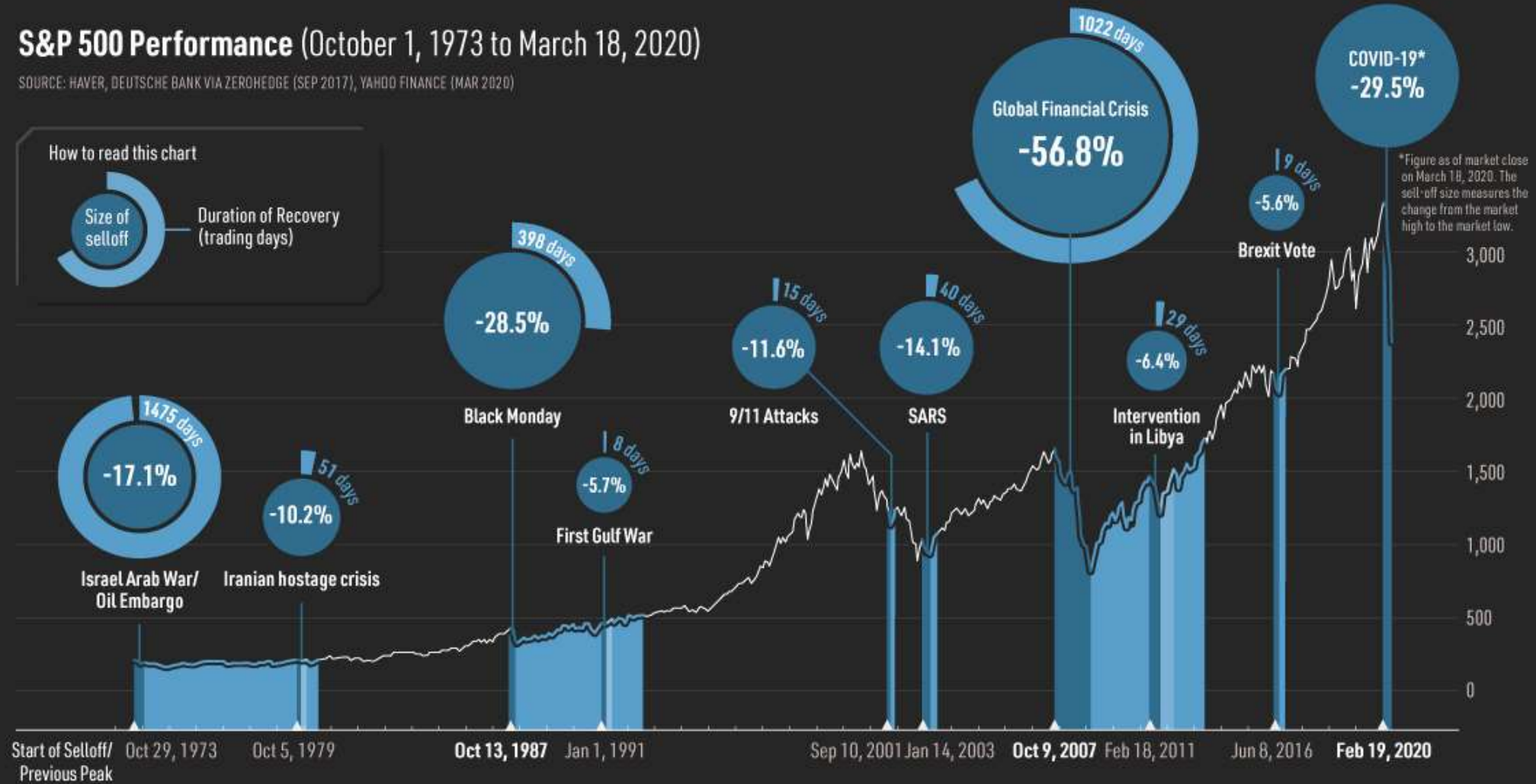


# Breakdowns in the Market since the last recession

## S&P 500 Performance (October 1, 1973 to March 18, 2020)

SOURCE: HAVER, DEUTSCHE BANK VIA ZEROHEDGE (SEP 2017), YAHOO FINANCE (MAR 2020)

How to read this chart



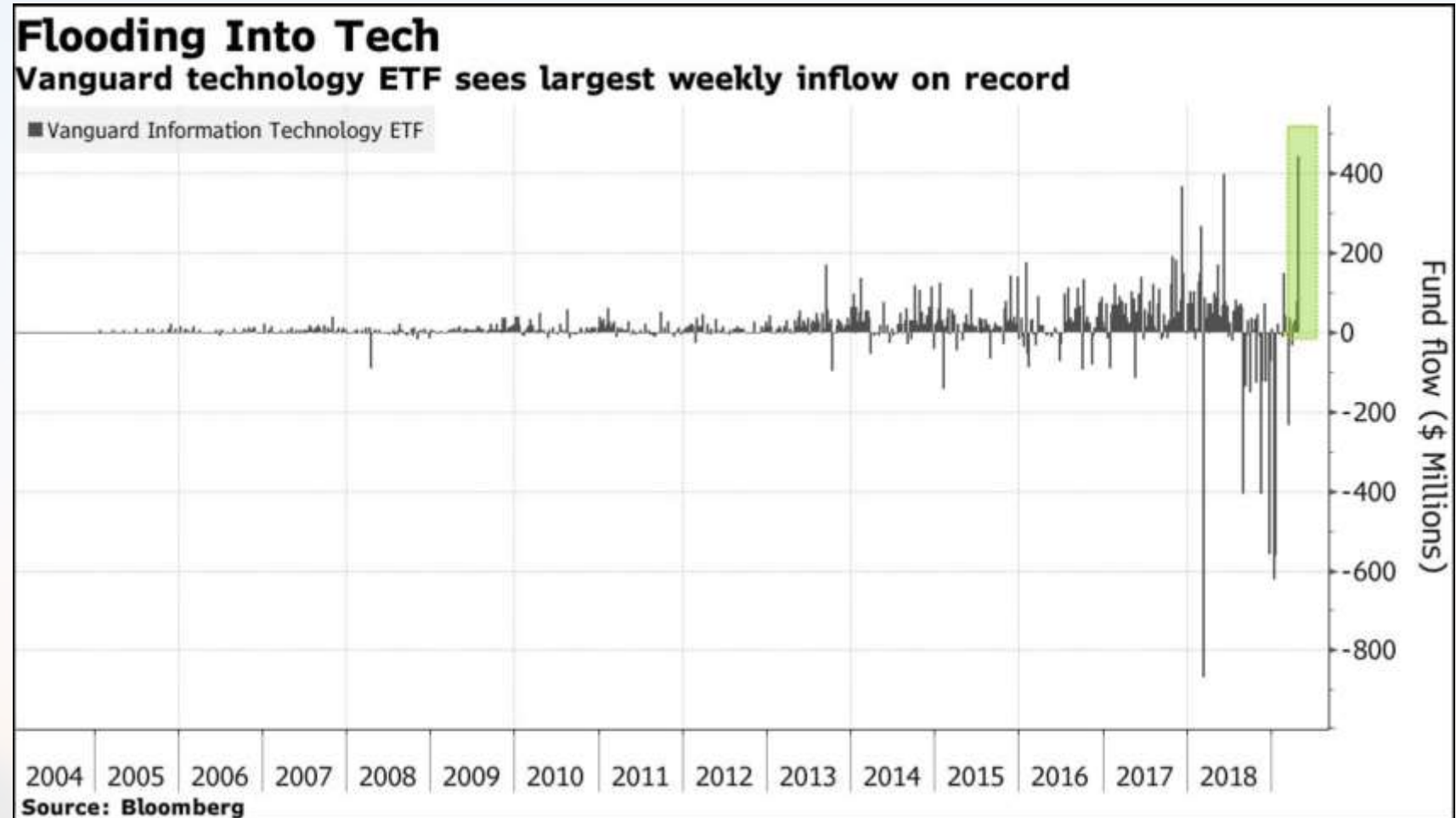
## Wars, Viruses, and Excessive Valuations

With sell-offs ranging from -5% to -50%, black swan events have all impacted the S&P 500 differently. Here's a look at select events over the last half-century:

Event	Start of Sell-off/Previous Peak	Size of Sell-off	Duration of Sell-off (Trading Days)	Duration of Recovery (Trading Days)
Israel Arab War/Oil Embargo	October 29, 1973	-17.1%	27	1475
Iranian Hostage Crisis	October 5, 1979	-10.2%	24	51
Black Monday	October 13, 1987	-28.5%	5	398
First Gulf War	January 1, 1991	-5.7%	6	8
9/11 Attacks	September 10, 2001	-11.6%	6	15
SARS	January 14, 2003	-14.1%	39	40
Global Financial Crisis	October 9, 2007	-56.8%	356	1022
Intervention in Libya	February 18, 2011	-6.4%	18	29
Brexit Vote	June 8, 2016	-5.6%	14	9
COVID-19*	February 19, 2020	-29.5%	19	N/A (ongoing)

## Inflows To Tech Stocks Increase

- Stay at home orders have changed people's habits
- The Tech stocks benefit from these habit changes
- Investors are reacting to these changes by adding to technology at home or work
- Approximately 20% of the S&P 500 index is tech



“Tech flows are white hot,” Steven DeSanctis, a U.S. equity strategist for Jefferies, wrote in a note to clients Sunday.

In the week ended April 26, three of the stock exchange-traded funds that attracted the most interest were tech-centric -- the Invesco QQQ Trust Series 1 which tracks the Nasdaq 100, the Technology Select Sector SPDR Fund, and the Vanguard Information Technology ETF. And while U.S. equities had more than \$6 billion in net outflows last week, tech stocks saw \$1.3 billion enter their coffers, according to Bank of America Merrill Lynch data, citing EPFR Global. The tech-heavy Nasdaq 100 traded little changed as of 9:58 a.m. on Monday.

## Netflix is almost perfectly positioned to ride out the global pandemic

And Netflix? [Netflix is thriving](#). The streaming service added 15.8 million customers in the first quarter of the year, a new record. Netflix had never added 10 million customers in a single quarter. While the S&P 500 is down 12% so far this year, Netflix is up more than 30%.

Netflix is almost perfectly positioned to ride out the global pandemic.

Billions of people are stuck at home, many with excess time on their hands. They are watching more TV than ever, especially in the middle of the day. But in the short term, the world is a very big place.

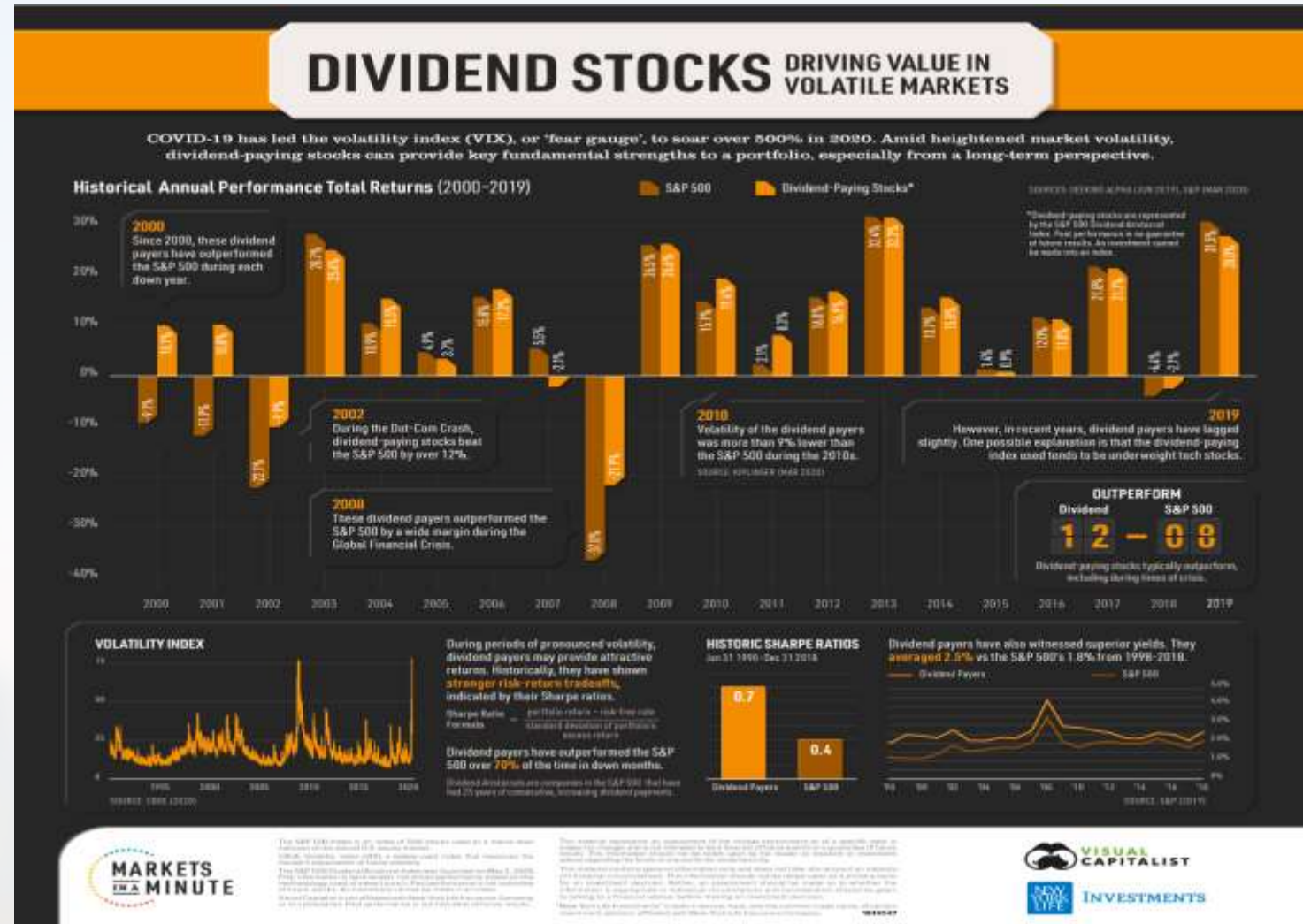
The company still has just 19.9 million subscribers in Asia, home to more than half the global population, and just 34.3 million customers in Latin America, home to nearly twice as many people as the U.S. Somehow, there are still people in the U.S. who don't pay for Netflix.

The service added 2.3 million customers at home. -- Lucas Shaw



# Dividend Stocks

- Since 2000, these dividend payers have outperformed the S&P 500 during each down year. Examples 2002, 2008, 2010



## How Dividend Paying Companies Performed vs S&P 500

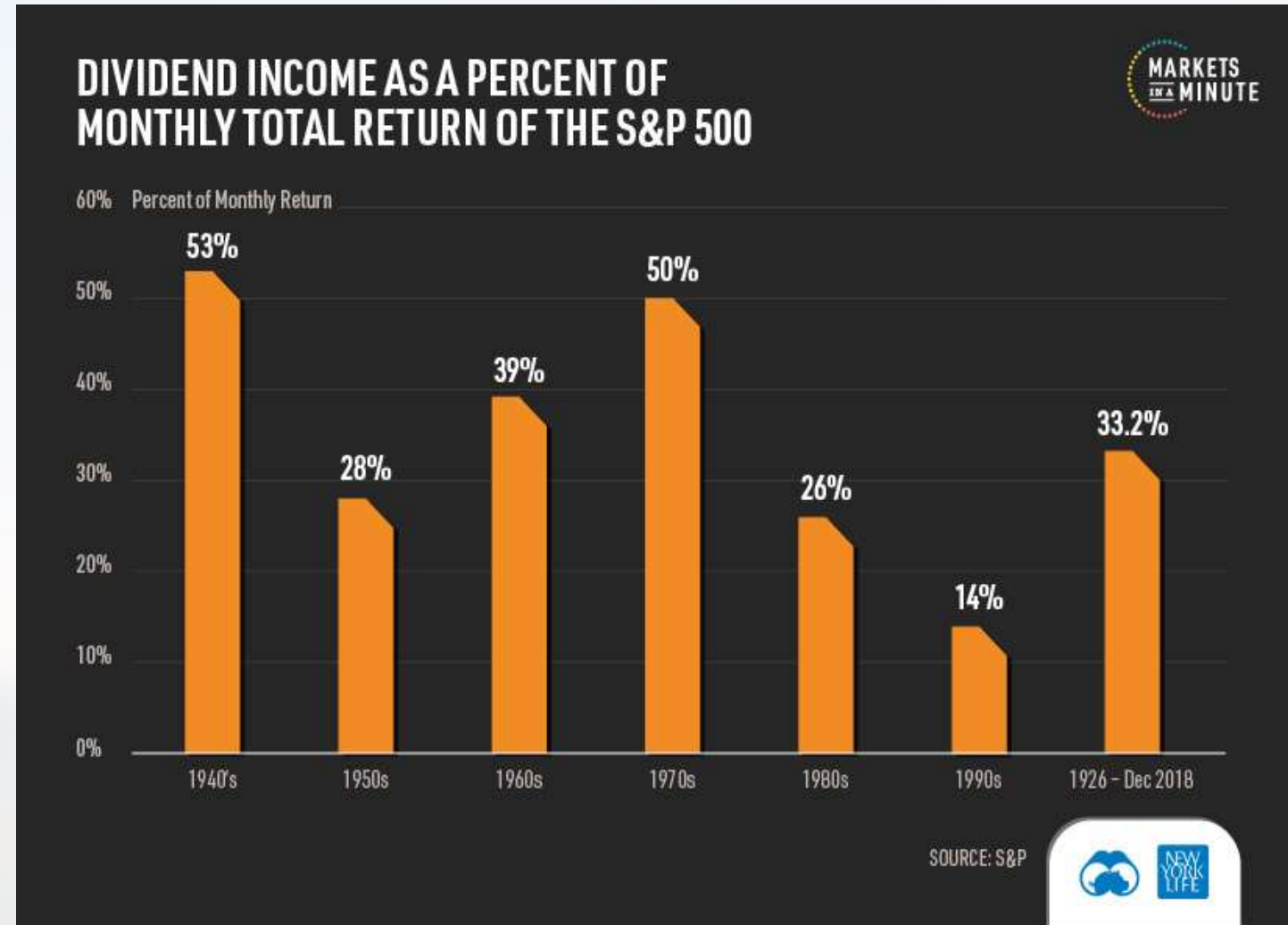
- Over the last two decades, dividend-paying companies have outperformed the S&P 500 in 12 of 20 years, including in all five years where the S&P 500 finished the year in negative territory.

Year	S&P 500 Total Return (TR)	Dividend-Paying Stocks* Total Return (TR)	Top performer
2000	-9.1%	10.1%	Dividends
2001	-11.9%	10.8%	Dividends
2002	-22.1%	-9.9%	Dividends
2003	28.7%	25.4%	S&P 500
2004	10.9%	15.5%	Dividends
2005	4.9%	3.7%	S&P 500
2006	15.8%	17.3%	Dividends
2007	5.5%	-2.1%	S&P 500
2008	-37.0%	-21.9%	Dividends
2009	26.5%	26.6%	Dividends

◀ Previous Next ▶

## Reinvested Income Fuels Returns

- Between 1926 and 2018, reinvested dividend income accounted for **33%** of total equity returns in the S&P 500.

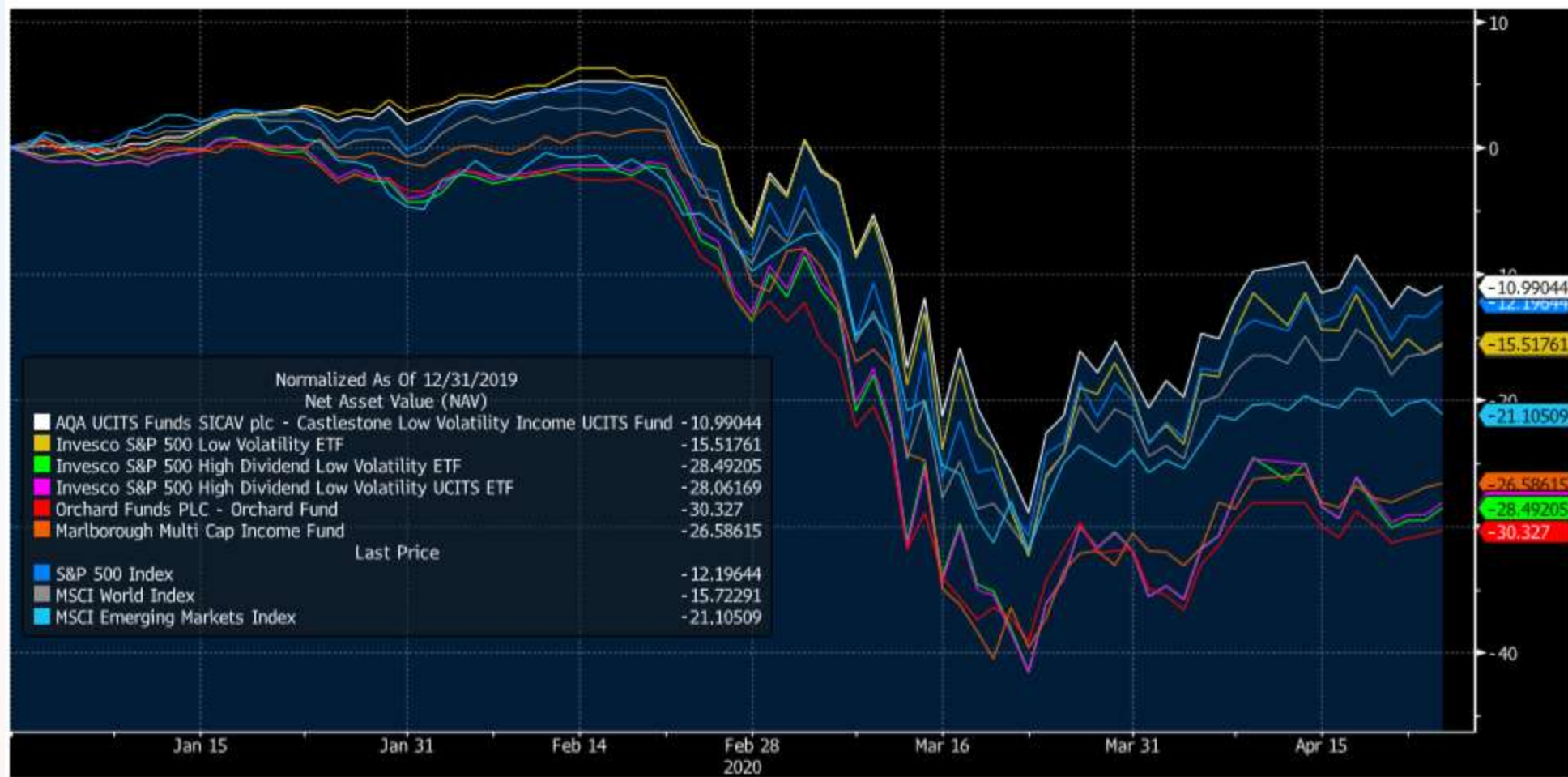


## How Dividend Payers Perform During Down Years

- Alongside this, a number of dividend payers have outperformed the S&P 500 in every down year since 2000.

Year	S&P 500 Total Return (TR)	Dividend-Paying Stocks* Total Return (TR)
2000	-9.1%	10.1%
2001	-11.9%	10.8%
2002	-22.1%	-9.9%
2008	-37%	-21.9%
2018	-4.4%	-2.7%
Total Years Dividend-Paying Stocks (TR) Outperformed	5	

# Low Volatility YTD Comparison



## FAANG+ YTD Comparison



## Recap

- Coronavirus cases are peaking in urban epicentres
- The time to buy stocks is during the agony/depression stage
- Since the last recession markets have consistently rebounded from breakdowns
- Investments are flowing into the leading tech stocks
- Dividend paying stocks have outperformed the S&P in down years.
- Reinvesting income fuels returns
- Low Volatility and FAANG+ have performed well YTD

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