April 2020

THE ADVOCATE

The Challenge of Our Time

The Paycheck Protection Program - Round 2

Market Review

Out of Disaster, Humanity and Community Shines

Cravens & Co.
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April 2020

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A Note from the Principal

Hello. I hope this letter finds you in good health and staying safe with your family. I trust you are coping with the new and different stresses placed on us by COVID-19. Most of us could not have imagined we would be confined to our homes by an unseen foe that has paralyzed much of the world. Nonetheless, here we are, and we must find a way through and learn from the experience.

In titling this issue, ***The Challenge of Our Time*** seemed like a clear choice, since none of us could think of another time that presented a challenge of this size and complexity as the one we are currently facing. It requires us to persevere intellectually in the pursuit of a cure and vaccine, economically in the effort to maintain our economy while avoiding cutting off revenue and amassing debt, and humanely as we attempt to balance the prior two as well as support ourselves and others.

We hope the articles are informative, helpful, and encouraging. While we serve clients in 16 states, we are proud to share a story about our local community and the overwhelming response to a devastating tornado that touched down in Tennessee.

As always, we hope you will let us know if you have thoughts, questions, or if we can help in any way. We also hope you will share this and all of our commentary you find helpful. Thank you for allowing us to serve you.

Wayne H. Cravens is the President of Cravens & Company Wealth Management.

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The Challenge of Our Time

Wayne Cravens
Principal

"Nothing in my life," was the answer my dear friend, who will soon be 90 years old, gave when I asked if he had ever seen anything like our current situation. This is a man who was a young child during the great depression and experienced World War II as a teenager. Of course, being very young during these two great periods of stress may have affected his response. Still, I think it's safe to say this period in history will likely be remembered as one of our most challenging.

Not since 9/11 has our consciousness and focus been so fixated on a singular subject. For most of us, the visceral fear generated by the coronavirus and COVID-19 has been real. So, has the ominous concern over what we don't know, or even things we don't know we don't know. Since late February, there has been a tidal wave of news, predictions, economic impact, and debate about the virus. To date, there are almost 3,000,000 recorded Covid-19 cases and over 200,000 deaths worldwide, including 55,000 in the US. It's clear our nation and our economy are in the midst of an unprecedented crisis.

To stem the spread of the virus, Federal and State governments have dictated mandatory shutdowns for all "non-essential" businesses, requiring an untold number of companies (large and small) to close their doors. As a result, over 26 million US workers have filed for unemployment insurance thus far, and more are expected. To offset the loss of productivity and income, the Trump administration and Congress have enacted three separate coronavirus-relief packages at a total cost of more than $2 trillion. To keep interest rates low and markets stable, the US Federal Reserve dropped short-term interest rates to zero and has purchased over $2.4 trillion of all types of securities – including junk bonds. Nominally, the numbers are staggering and still growing. On a relative basis, we've only experienced government aid and intervention of this magnitude during our nation's most challenging periods.

Some areas of our country were hit much harder than others. Logically, population centers would offer a prime opportunity for the virus to spread. Over 40% of the nation's cases and half of our deaths occurred in New York and New Jersey alone. Healthcare workers in those states, as well as nationwide, will be heralded as heroes for their selfless and tireless commitment. As in times of war, resources have been reallocated to provide equipment and materials necessary to care for patients.

Fortunately, the early predictions that the healthcare system may be overwhelmed have not yet proven to be accurate. In the hardest-hit areas, health care communities have been bent, but not broken. The closures, shelter-in-place orders, and "social-distancing" practices have "flattened the curve" and bought much needed time for our healthcare infrastructure to increase capacity and prepare.

Presently, experts from the Centers for Disease Control (CDC) and the National Institute for Health (NIH) believe we have reached the peak of the contagion. Some states which are under mandatory closures plan to begin opening back up in May. Others have extended their lockdowns.

There are many different opinions on when the economy should re-open and whether the economic destruction of the closures could be worse than the disease itself. Some countries, such as Sweden, chose a strategy toward developing "herd immunity," which avoided closures altogether and only advised the elderly to avoid social contact. It's important to

note, however, that Sweden's population of approximately 10 million is only about 3%, and their density of population is only two-thirds of our own. Only time will tell which was the better path. For now, we must navigate the one we're on and move forward thoughtfully.

As has always been the case, necessity is the mother of invention. Presently, there are 71 vaccine candidates in development. While that doesn't guarantee a positive outcome, the odds of having 71 shots to make the goal are much better than having two or three! Also, numerous drugs are being tested as treatments to reduce the severity of the disease. Finally, testing for both the virus as well as the antibodies are ramping up, possibly associated with some level of immunity.

I'm happy to say I had the test for the virus and was found negative. The test was administered to me inside my car and took about 10 minutes to complete. They called me with the result in two days. The fact that I could still contract the virus is not important. What is important is that the better we track who may have the virus and who has already had it, the sooner we can work and interact together confidently.

Never would the old saying "April showers bring May flowers" be more welcome. Some epidemiologists believe the warmer weather will negatively impact the virus's ability to spread. I know it will have a positive effect on our emotional health. As we move into May, there are many questions to be answered and decisions to be made. We'll need to be at our best to avoid a resurgence of infections and deal with the economic fallout.

Throughout history, our society has been tested and persevered many times. I'm confident we will this time as well. However, it is my belief that this will be more of a marathon than a sprint. Defeating a heretofore unknown pathogen and filling the economic crater it caused will require determination, collaboration, ingenuity, and patience. I daresay patience may be the aspect we think about the least, but it will likely be our biggest test. We've become accustomed to wanting our way and wanting it now. Let's be patient and find a sustainable path rather than rush toward an uncertain future.

The Paycheck Protection Program - Round 2

Guthrie Lattanzi
Investment Services Intern

Tyler Atkinson, JD
Technical Advisor

In the wake of the COVID-19 pandemic, many small businesses have greatly suffered. Between the fear of contracting the virus and the stay at home orders from state governments, people have largely stopped leaving their homes. Many businesses have been ordered to shut down if they do not provide goods or services that are considered essential to the public. These essential businesses are receiving less foot-traffic as people practice social distancing, and occupancy limits of buildings are put in place.

Round 1

In order to aid small businesses during this pandemic, the Paycheck Protection Program ("PPP") was passed as part of the Coronavirus Aid, Relief, and Economic Security (CARES) Act in late March. The PPP provides small business loans up to $10 million through the Small Business Administration to aid businesses in funding payroll and related expenses as a result of COVID-19. Overly simplified, to calculate the loan, small businesses calculate their average monthly payroll cost, including employee benefits. Then, the average monthly payroll cost is multiplied by 2.5. The purpose of the PPP is to aid businesses in retaining employees, and well, protecting paychecks.

Round 2

The PPP was initially allocated $349 billion, but that funding was depleted in merely 13 days, leaving the majority of small businesses still needing aid. Congress has now passed another stimulus package of $484 billion to combat the economic downturn caused by the coronavirus pandemic, which includes $310 billion in additional funds for the PPP.

Although the $310 billion in additional funds are allocated, many groups believe the funds will last days instead of weeks. Many applications are still pending from the first round of loans, which could make it all the more difficult for new applicants to get approved. Although the additional funding to the PPP will provide further financial aid to many more small businesses, there is still concern that the second round of funding will run out before a significant number of businesses are funded.

Unclear Initial Requirements

Although the PPP was explicitly established to aid struggling small businesses, the lack of controls with regard to the loan requirements allowed several large, publicly-traded businesses to end up receiving funding. Now, the Treasury Department is warning these bigger businesses that they need to return the aid it received. They have also stated that due to the original guidelines being unclear, there will be no penalty to these companies as long as they give back the money immediately. Some of these larger businesses, including Ruth's Hospitality Group and Shake Shack, have already announced they will be returning the money they received. Unfortunately, the returned money will not be available to make new PPP loans.

Getting the Loan Forgiven

Assuming you've received a loan under the PPP and won't be returning it, the question now becomes: how do I get my PPP loan forgiven? Although the Treasury has not released a specific forgiveness formula, we know a couple of thresholds that apply to forgiveness. Firstly, PPP funds can be used for payroll, rent, utilities, and mortgage interest. However, payroll expenses must make up at least 75% of the loan in order to qualify for forgiveness. The remaining 25% may be used to cover rent, utilities, and mortgage interest. We also know the number of employees retained for the eight week period will factor into funding forgiveness. In addition, if employees were let go prior to receiving loan funding, you can still qualify for forgiveness if they are re-hired in a timely fashion.

Any portion of loan funds that are not forgiven will be required to be repaid on a two-year term at a 1% interest rate.

1. Source: Small Business Administration
2. Source: Forbes
3. Source: US Department of the Treasury

Market Review

Woody Welch
Chief Investment Officer
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Investment Analyst/
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1st Quarter 2020

The US stock market entered bear-market territory less than a month after hitting an all-time high, and equity markets around the world sold off aggressively. Government bonds benefited as safe-haven assets, but almost all asset categories suffered amid a liquidity crunch in March. Riskier credit bonds and commodities prices declined sharply alongside global demand.

As COVID-19 and government-ordered shutdowns proliferated throughout the world, a mostly late-cycle global economy descended swiftly into recession. While the spread's progression was not uniform, drastic restrictions on travel and other activities reinforced the global nature of the downturn. The onset of the US recession began in March; meanwhile, China's economy showed some signs of bottoming, albeit at still contractionary levels.

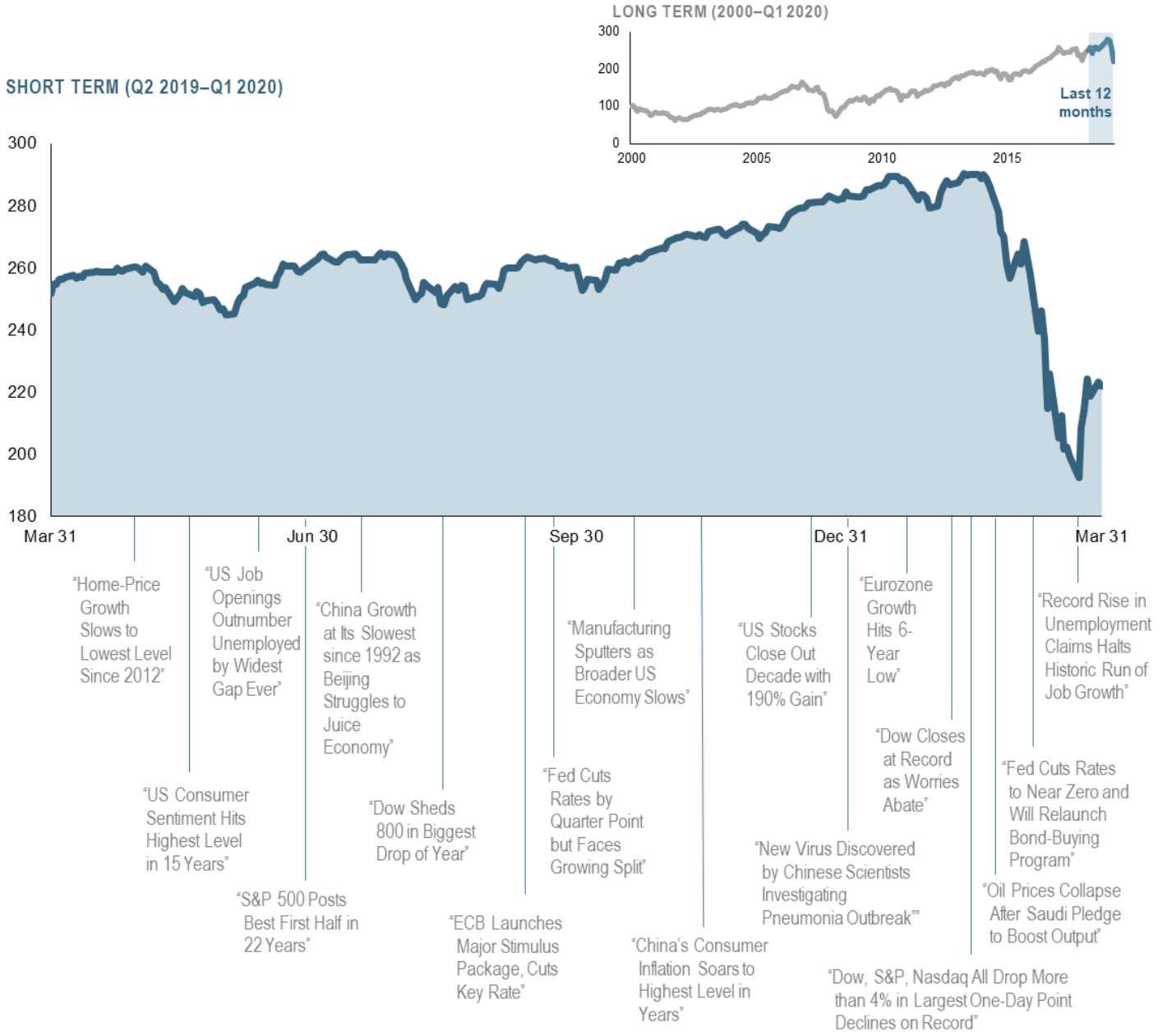
Record-low unemployment reversed abruptly, as new claims surged to historic highs. Industries most directly and immediately impacted—such as travel, leisure, restaurants, and hotels—account for a significant portion of US output and employment. Policymakers initiated unprecedented support to the financial markets and economy. Global central banks engaged in significant monetary accommodation in Q1, implementing policy rate cuts, forward guidance, and large expansions of quantitative easing. The growing scope of the clampdown on normal activity suggests it's too soon to forecast the slowdown's length, but the eventual recovery is expected to be gradual.

Looking Forward

Making wise investments is more about considering risks than predicting the future. In today's investment world, we are presented with risks that are not even in the textbooks. We are faced with analyz-

World Stock Market Performance

MSCI All Country World Index with selected headlines from past 12 months



These headlines are not offered to explain market returns. Instead, they serve as a reminder that investors should view daily events from a long-term perspective and avoid making investment decisions based solely on the news.

Graph Source: MSCI ACWI Index [net div.]. MSCI data © MSCI 2020, all rights reserved.
It is not possible to invest directly in an index. Performance does not reflect the expenses associated with management of an actual portfolio. **Past performance is not a guarantee of future results.**

ing the impacts of global pandemics, a sudden closing of economies around the globe, and unprecedented actions by global central banks. We can't pretend to know all of the implications of an event of this scale, but our challenge is evaluating its implications on future company earnings. When the dust clears, the expected future earnings are what provides the value to owning a company.

Virus Status and Economics

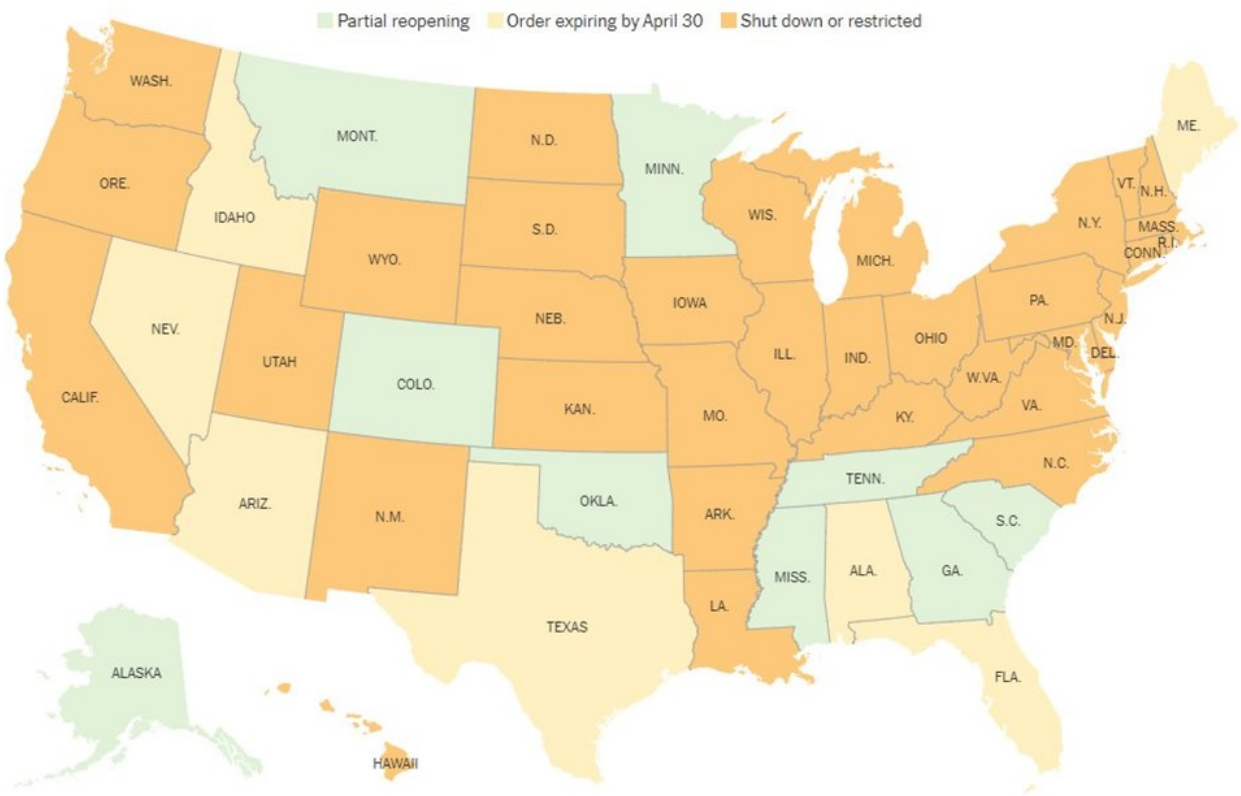
In our last quarterly letter on January 31st, we wrote: "In addition to the tragic toll on human lives, the coronavirus outbreak in China brings potential economic and market implications for China and beyond. The situation is at an early stage and is evolving quickly. Both market and economic implications depend on the severity and duration of this epidemic. Cases continue to surge and are now over 9,700 and have resulted in 213 deaths."[3]

In a short amount of time since then, the virus has spread exponentially. The case total has now breached 3 million, and the death total is over 200,000.[3] Based on a comparison to the number of deaths that occurred last year, both of these totals are grossly understated. For example, in New York City, there have been 11,708 confirmed deaths attributed to COVID-19, but the total death count this year has been 20,900 higher than normal based on prior years data from the NYC Health Department.

According to Dr. Tom Inglesby of Johns Hopkins, the virus will be with us until a vaccine is available. To manage outbreaks until then, he says we need contact tracing along with massive testing capacity, which is not yet available. Last week the US performed 250,000 tests a day. If we round up to 2 million tests a week, it will take 165 weeks to test the US population just once, so America has a challenge, but a month ago, our testing capacity was only 150,000 per day.

On an encouraging note, shutting down the economy has bought crucial time for communities to prepare for future infections by creating procedures and acquiring needed supplies such as protective equipment, ventilators, and hospital beds. Data shows that individuals and communities are beginning to reduce their emphasis on shelter in place. We all hope social distancing, warm weather, and efforts toward cleanliness will hamper the continued spread of the virus, but as restrictions are lifted, it only stands to reason that cases will increase. What is unknown is how consumers, businesses, and governments will respond to an increase in cases. We suspect a type of new normal life will emerge without broad economic shutdowns, but with many activities impacted.

The sudden way the economy was stopped leads to the hope of a "V" recovery with business resuming as before. The temporary aspect of many layoffs strengthens this view. Still, the challenges include: with social distancing in place restaurants will have fewer tables requiring less staff, the capping of oil wells leads to less need for workers, industries de-



pendent on crowds may be halted until a vaccine is available, global supply chains in manufacturing industries such as automobiles make the staggered renewal of production a challenge due to parts needed from around the globe, a segment of the population will avoid many activities due to fear of catching COVID-19, and a segment of the population will remain unemployed which results in less buying of goods and services.

Government Support

A sub-drama is playing out in financial markets. The shutting of the economy has created a gap in economic activity. Out of a labor force that totaled 164 million jobs, 26 million have been lost.[2] Many of these are, no doubt, temporary layoffs, but some will not return for a long time. The US Federal Reserve and Congress are doing their best to provide money to fill this gap and reduce the impact on a slowing of the economy. The massive government response is a testament to the challenge before us. The Fed's response has been equated to more than $6 Trillion along with over $2.6 Trillion from Congress. To put that in perspective, the entire value of the US stock market is around $32 Trillion, so $8 Trillion of stimulus over two months is a lot of money. The response has provided investors' confidence so far, but will it be enough to avoid a prolonged recession is an open question; this is a real-life experiment.

The economic challenges are everywhere, and each pebble thrown in the pond makes ripples. Nowhere is this truer than

the entertainment industry. Consider the direct jobs lost for canceled sporting events from children to high school, college and professionals, music concerts, festivals, corporate meetings, industry trade shows, and holiday celebrations. Then consider the indirect jobs affected by the cancelations, travel to and from, lodging, food, shopping, and additional entertainment. The US has a consumer-driven economy, which may result in these ripples becoming waves.

Investment Opportunities and Challenges

The "whatever it takes" mantra by the US Federal Reserve Bank is beyond what was thought possible based on their charter. They have openly spoken of a willingness to print enough money to keep the US economy afloat. Currently, a flight to safety is pulling investors to the US dollar; in the future, investors will not be fond of the increase in the supply of dollars. To put it simply, if you own a US bond, you will be paid back with freshly printed dollars. In the near-term, we expect reduced economic activity will keep inflation down. In the longer-term, the additional dollars which have been printed could have a profound impact on investment decisions. Adjusting for this impact may be the most important of future investment decisions. Needed adjustments will evolve, but on the surface, it seems to be positive for gold, real estate, and international assets.

Stock market valuation based on expected future earnings is back to the recent highs, even though more earnings cuts are expected. The view when looking at past earnings is more encouraging. A P/E of 18[5] is not considered historically cheap, but it matches the lows of the past few years. The question when looking at past earnings is how long it will take for earnings to return in full after this recession.

The recent bounce in the US stock market has so far been similar to recoveries, which have been followed by additional declines. This recovery has been led by technology and healthcare companies that have left other sectors behind. For the rally to continue, we expect to see a broadening out of the rally into other sectors, which will be a pivotal encouragement to move toward being fully invested. At present, we are seeking opportunities but are cautious due to the prevalence of challenges to the economy.

The following chart illustrates the dichotomy, which currently exists in the US market. Technology stocks are illustrated by the Nasdaq 100, and small companies by the S&P 600. Note how on the far right of the chart, technology companies have bounced back to their old highs, while smaller companies are still down and have been declining since 2018. The future can be different than the past, but the bubble in the middle of the chart illustrates what happened when the market was in a similar position in 2000. The next action was a decline in technology stocks, while smaller companies were relatively resilient. This, along with valuation analysis, is a reason we are tilting pur-

chases toward smaller companies, and in general, tilting away from technology.

We are actively searching for and taking positions in companies with high-quality balance sheets, especially those that have declined and/or have a strong wind at their back. Many financials and some industrial companies fit this description. Banks are potentially challenged by the distressed loans on their books, but their balance sheets are, in general, strong. This situation in banking differs greatly from 2008. Back then, the FDIC was putting pressure on banks, which resulted in restricted credit, today government regulators are encouraging and allowing banks to be lenient concerning loans. For those who like to watch Warren Buffet, the only purchase during this decline he has disclosed is an investment in a bank.

One specific area we see as an opportunity is energy. The reduction in demand for oil has caused the storage capacity of the industry to fill up. If storage is full, then wells must stop pumping and be "shut-in," because there is nowhere to send the oil. Refineries are also running out of capacity to store petroleum products, such as gasoline, so they are in the process of reducing capacity and shutting down production. This also lowers the current demand for oil. Smaller companies with weaker balance sheets will struggle to survive, and it is likely many will not.

The US had 991 oil rigs one year ago,[6] which is now down to 465 and is expected to drop to around 300 next month. The full impact of the "shut-ins" is unknown, but the expected result is many of the wells cannot be reopened without the companies incurring high costs. These costs to reopen could result in long-term destruction of supply. Less supply of oil likely results in higher future oil prices. The companies with the most durable balance sheets will not only survive, but have the opportunity to buy prized oil fields during the crisis, and may end up more profitable than they would have without going through the crisis. Yet the stock prices of the strong energy companies are down due to the crisis.

We share the energy example to illustrate that after the pain and fear abate, some companies may not just survive but thrive. We hope to find some of these opportunities and make them long-term investments for your portfolio.

Conclusion

There is a key question before us: “Is this the beginning of a recession, or the end of a temporary shock to the system?” From what we hear in the media and what we have seen recently in the stock market, the temporary shock view seems to have a lot of believers. We continue to evaluate the answer to this question, but our fear is the impact of the crisis will be long-lasting. Social distancing, canceled events, and reduced travel all have an impact on employment and income. If a vaccine remains on the reported schedule, by the time it arrives and life returns to normal, the lost jobs and income will have a pronounced effect on corporate earnings. While the earnings of some companies will not be as impacted as others, what investors are willing to pay for those companies will be impacted by the valuation of the companies which are affected. The unprecedented government stimulus programs will blunt the impact, and are a significant complication to evaluating the risks, but the results are unlikely to be painless.

If you have thoughts or questions about any of the information we've shared, or on any other subject, please don't hesitate to call us. We are grateful you allow us to serve you and your family, and we will continue to make every effort to justify the trust you've bestowed on us.

Sincerely,
Your CCA Investment Team

1. Source: Standard & Poor’s
2. Source: US Department of Labor
3. Source: Worldometer
4. Source: Wall Street Journal
5. Source: FactSet
6. Source: Baker Hughes

Out of Disaster, Humanity and Community Shines

The night of March 3rd, 2020, brought devastation in the form of an EF-4 tornado to the Cookeville, Putnam County, Tennessee area. It took less than 15 minutes for the devastating act of nature to destroy over 500 structures and take 18 lives (13 adults and 5 children) in the western part of our community. The degree of the destruction was similar to scenes of Hiroshima and Nagasaki. The area was declared a “major disaster” by FEMA and the President even visited our community in a show of support. We are

fortunate the storm decided to elevate; otherwise, Cookeville Regional Medical Center (CRMC) and Tennessee Tech could have been victims as well.

Long before the first rays of sun illuminated the destruction, neighbors were helping neighbors, pulling victims from collapsed homes, rendering medical aid, and providing shelter from the storm. First responders began working immediately and did not stop for days. Physicians of all specialties worked together as trauma specialists as the halls of CRMC were filled with injured victims brought by both emergency response vehicles and neighbors.

For days after the tornado, people from all over the community were helping with search parties and clean up. So many people volunteered that our City and County Mayors (who worked tirelessly together throughout the crisis) had to ask people not to come to the site so utility personal could get heavy equipment to the scene. While many volunteered their time, others were donating food, clothes, necessities, and even their homes. The lines to give blood were around the block and continued in the days to follow.

And then there were the financial donations. Through the work of the Mayor, Councilmen, local banks, and a local PR firm, The Cookeville-Putnam County Tornado Relief Fund enabled individuals and businesses from all over the country to offer financial support to the victims. Food City, a southeastern grocery chain that doesn't even have stores in the community, raised almost $400,000 by allow-

ing patrons to donate at their check outlines. All totaled, approximately $1.8 million has been raised and will be distributed directly to those in need. Tennessee Tech University's President Phil Oldham, giving the first $1,000 himself, started a fund that was able to collect $418,363 in total gifts to aid students impacted by the disaster. Many of Tech's students gave blood and volunteered to help clean up the affected areas. In a final act of compassion CRMC, the same hospital that spared by the storm, refused to charge all victims injured by the disaster.

It is humbling to see the power of Mother Nature. It is even more humbling to see the power of a community rally together as one, to help one another. When you combine that with the empathy shown by others far and wide to the plight of an injured town trying to help themselves, you get one of those "chill bump" moments. Thank you to everyone!

Cookeville, we are proud to call you home.

Your Financial Advocate

You have goals you want to achieve… places you hope to go… things you want to do… people you desire to spend time with.

These dreams have motivated you over the years to work hard and to sacrifice.

Fully realizing your dreams also takes planning and execution to get them "over the top".

Whether you aspire to…

...travel the world with your spouse…
…spend more time on hobbies like flying, cooking, or wine collecting…
...live on a ranch in the country or a cabin in the mountains…
...create a legacy for your children and grandchildren…
...support the charities and causes that you hold dear...

We can help you create and execute a comprehensive plan for financial success. One that will give you the confidence to spend your free time on the other things that are important to you.

At Cravens & Company, our mission is to help successful individuals and their families realize and enjoy their life goals. We are an SEC registered fiduciary that combines holistic planning, personalized investment management, tax and estate strategies, and business planning with a proactive, solutions-oriented mindset. The result is a formula and a culture centered on your success; however you define it. In the complex world in which we live, we believe anything less is inadequate.

Since 1996, we have been serving the specialized needs of: family businesses and their owners, professionals, and successful retirees. Over the years, our firm has changed and matured, evolving from a model where the individual advisor acts alone in all areas of the client relationship to an ensemble of functional specialists who collaborate on finding creative solutions to our clients' unique issues.

While prudent investment advice is a foundational component of our service, we passionately believe we best serve our clients by bringing all facets of their financial life into view simultaneously. Armed with a complete understanding of their overall situation and working in conjunction with our technical advisors as well as those of our client, we can develop effective solutions that are holistic in their application.

Our goal is to provide each client with the leadership, relationship, and creativity needed to allow them to achieve their life's goals and, even more importantly, the confidence to enjoy the journey. After all, what is the point of all the work and worry if you don't get the satisfaction of realizing the results?

At Cravens & Company, we have a team that is by design, ready to work for you. If you have complex financial issues and/or desire a relationship of this type, please contact us to arrange an introductory meeting. We can be reached at 931-528-6865 or online at www.cravensco.com.

Cravens & Co.

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