

Spring 2020

Our *Playbook* is designed to share our quarterly views in a visual presentation with comments providing context to what we believe are the pertinent issues of the most recent quarter and what we see moving forward.

What We Know

- I. The Coronavirus (Covid-19) Crisis has claimed over 177,000 lives worldwide (4/21/20) and has had an unprecedented impact on how we live our daily lives - sending shock waves through the financial markets.
- II. As of April 11, about 22 million people lost their jobs in the past four weeks.
- III. Volatility, measured by the VIX Index, went from 15 to a record 82 in just over three weeks.
- IV. During the quarter, the 10-year treasury was trading at a yield as low as 0.318%.
- V. Peak to trough the S&P 500 lost 34% and has subsequently rebounded 25% to April 21.
- VI. The U.S. Government is injecting more than \$2 trillion into the economy and adding other stimulus through Federal Reserve policies.
- VII. Consumer spending makes up 68% of the U.S. economy is consumer spending and we have all been asked to stay home, causing much of the strain on the U.S. economy.
- VIII. Oil has faced unprecedented obstacles - spat between OPEC and Russia, excess supply and significantly reduced demand as The Great Lockdown took hold of commuters and travelers around the world.

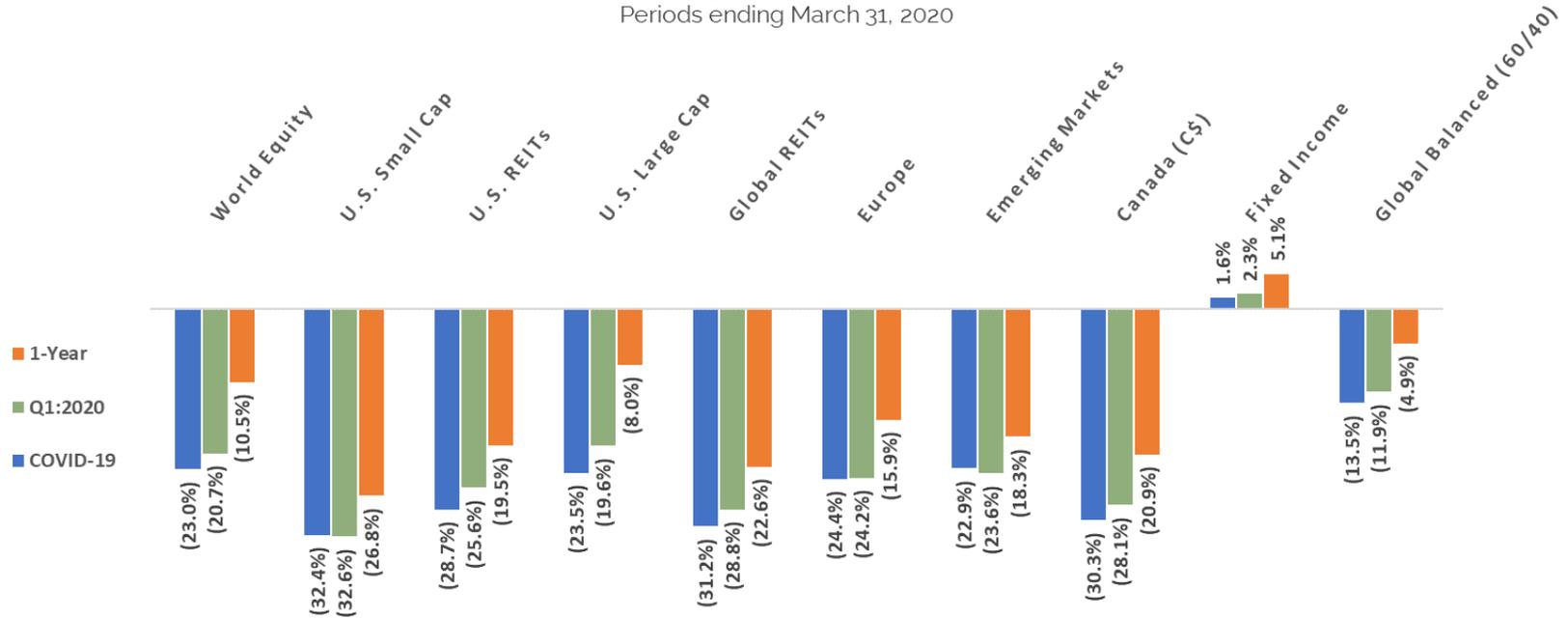
History doesn't repeat itself, but it often rhymes.

- Mark Twain

The Virus Has No Boundaries

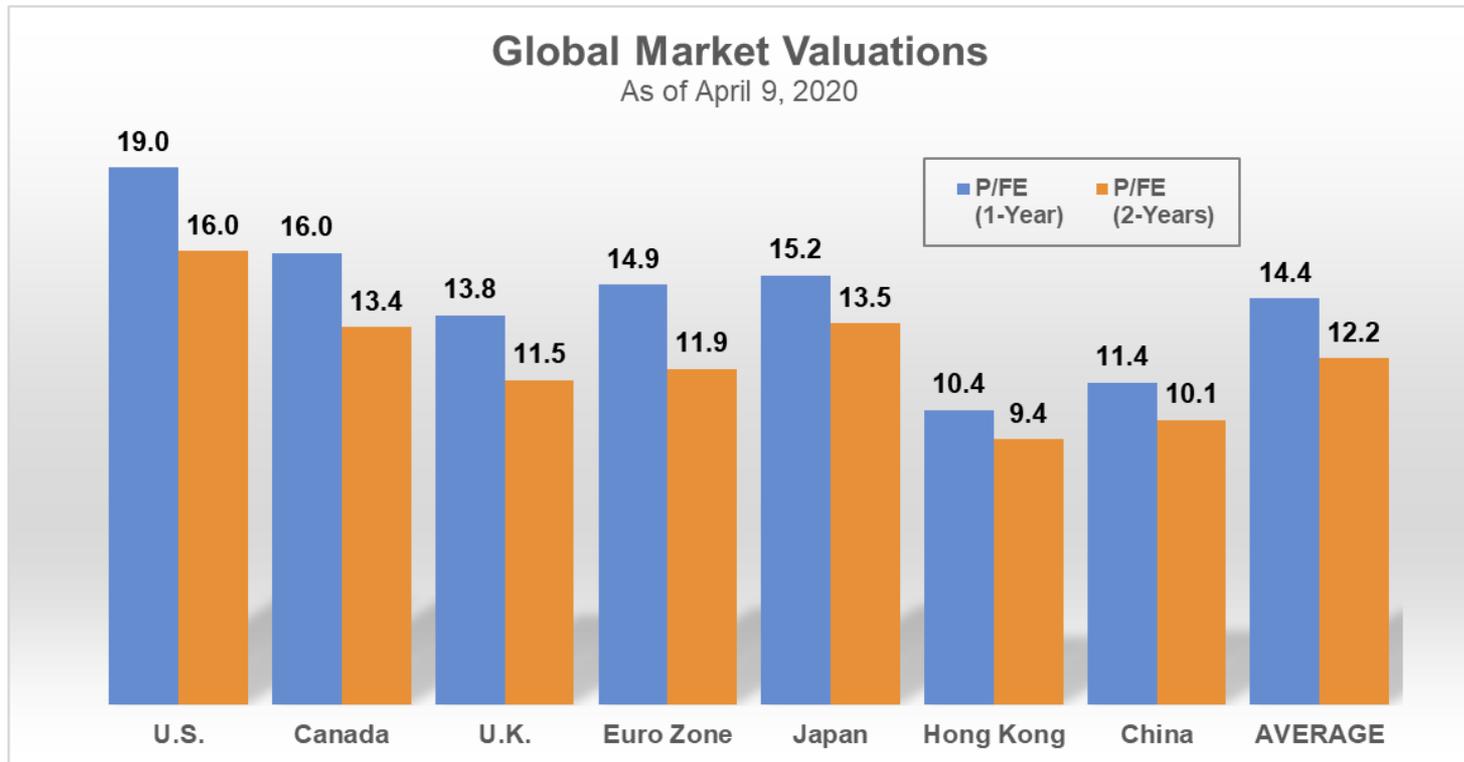
Global Capital Market Returns

Periods ending March 31, 2020



Source: Standard & Poor's, MSCI, FTSE, Wilshire. U.S. Large Cap: S&P 500 Composite (incl. Dividends), Canada (C\$): S&P/TSX 60 Composite, World Equity: S&P Global 1200 (incl. Dividends), Europe: MSCI Europe Gross, U.S. Small Cap: S&P 600 Small Cap, Emerging Markets: MSCI Emerging Markets Gross, U.S. REITs: Wilshire U.S. REITs Index, Global REITs: S&P Global REITs Index, Fixed Income: FTSE World Government Bond Index 1-5 Year Hedged

The Nearly Indiscriminate Bear Creates Opportunity



Source: Bloomberg, MSCI, One Capital management analysis. Data are as of March 27, 2020. Markets are represented as follows: U.S. – Standard & Poor's 500, Canada – S&P TSX, U.K. – FTSE 100, Euro Zone – Euro STOXX 50, Japan – Nikkei Index, Hong Kong – Hang Seng Index, China – CSI 300 A—shares Index. Historical S&P 500 valuations: 20-year Average as of 12/31/2019: 15.5, 12/31/2019 P/FE: 18.2.

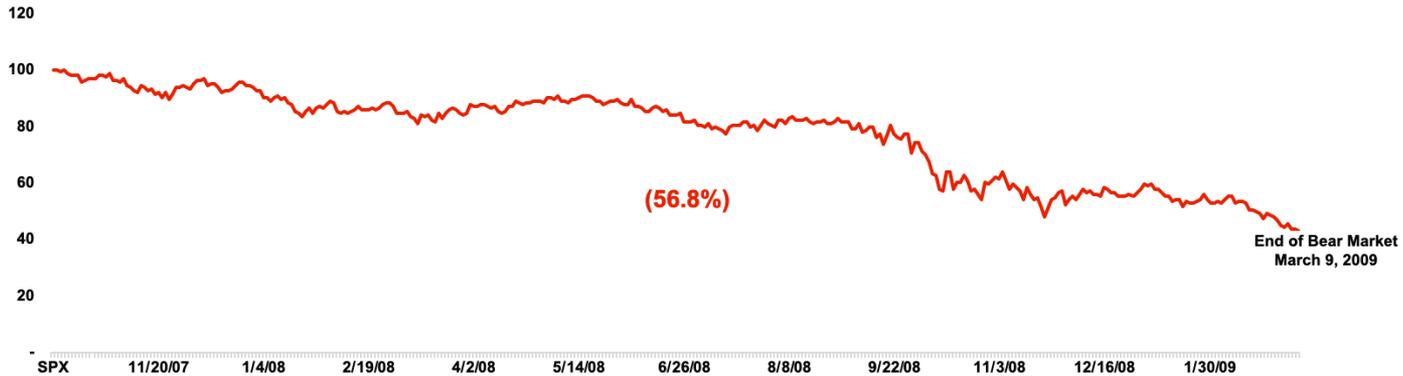
What We Don't Know

- I. When we will have a medical treatment for the symptoms of the virus, and when there will be a vaccine?
- II. When will the economy reopen and will that happen in an orderly manner?
- III. What does the post-Covid-19 world look like? What, if any, will be longer structural changes to our economy?
- IV. What will be the impact of unprecedented government stimulus on the economy?

At heart, “uncertainty” and “investing” are synonyms.
- Benjamin Graham

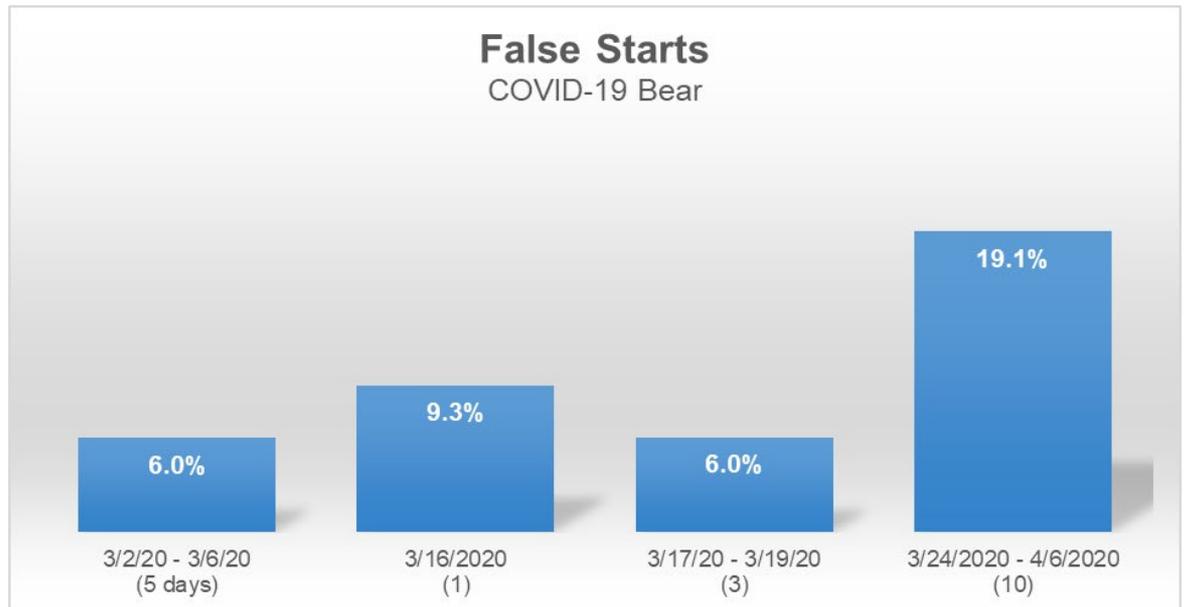
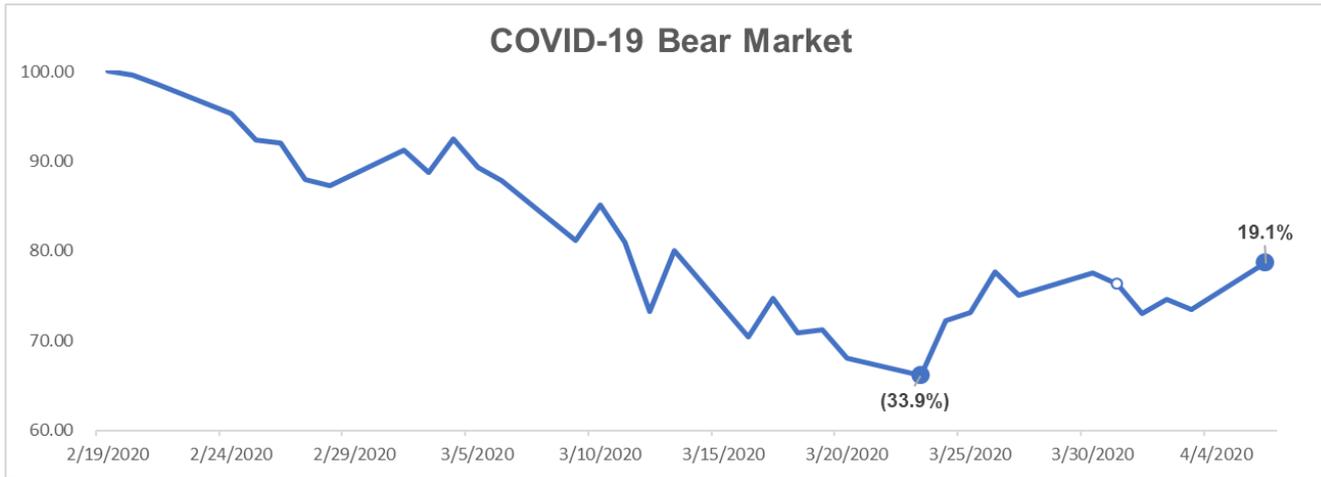
In a Bear Market, Beware of False Starts

Financial Crisis Bear Market
(10/9/2007 - 3/9/2009)



Source: Standard & Poor's, One Capital Management analysis.

COVID-19 False Starts

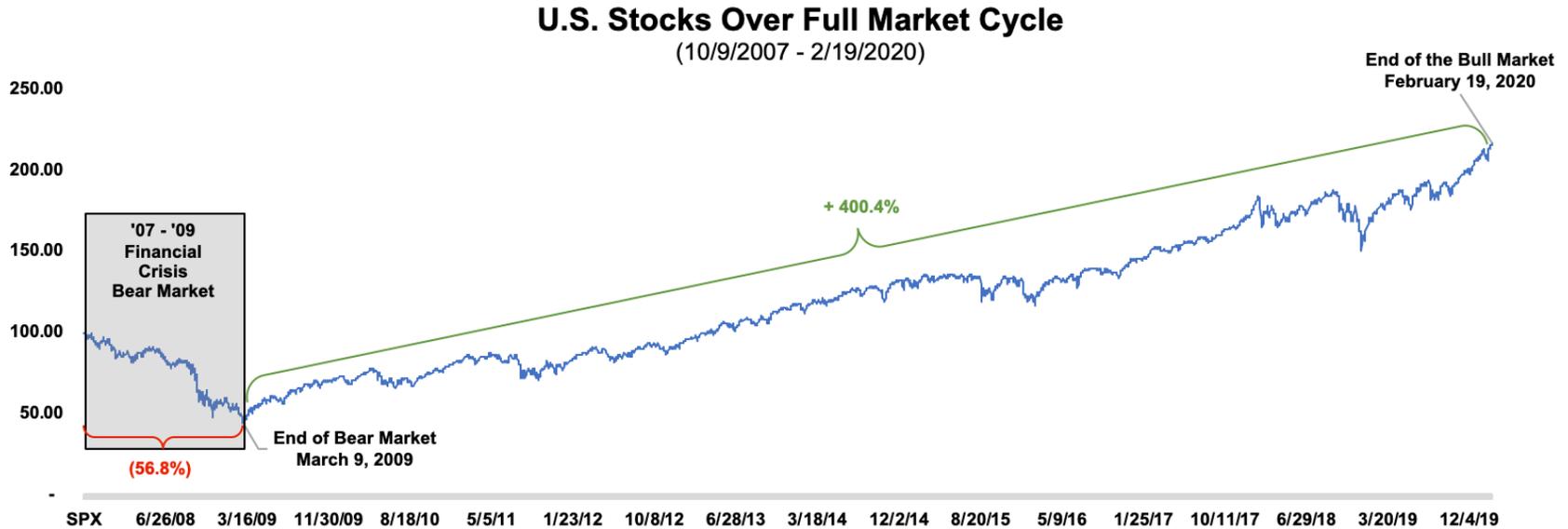


Source: Standard & Poor's, One Capital Management analysis. Equity market returns represented by the S&P 500 Price.

What We Think

- I. This crisis has three primary elements:
 - Deleveraging and dysfunctional capital markets - this stage is in process. Capital markets are suffering from indiscriminate selling. However, Congress and the Fed are aggressively trying to offset this through the various stimulus programs introduced.
 - The Virus - until we have treatments for people who contract the virus, an antibody, herd immunity or a combination of the three, our economy will not return to normal.
 - Economic Implications - how long do these unemployment rates last? How long can small business survive even with stimulus? What does the economy as a whole look like when life does go back to normal?
- II. 2020 is a throwaway year - forecasting annual earnings during this year is fraught with uncertainty. We must look beyond the current year into 2021 and 2022. Uncertainty there is dramatically reduced, and we can make reasonable forecasts and understand risk better.
- III. We see great opportunities in companies we have been watching closely for an entry point. More opportunities to buy companies at very favorable prices may still appear as the current earnings season gets underway.
- IV. Stimulus will put a lot of liquidity in the system and once we normalize, this will have a positive impact on the economy and markets...but that will take time.
- V. Most importantly, this is not a time to panic because the market has lost 35% of its value or because it has rebounded by 25%. **STICK TO YOUR WELL THOUGHT OUT PLAN BASED ON YOUR LONG-TERM GOALS!!!**

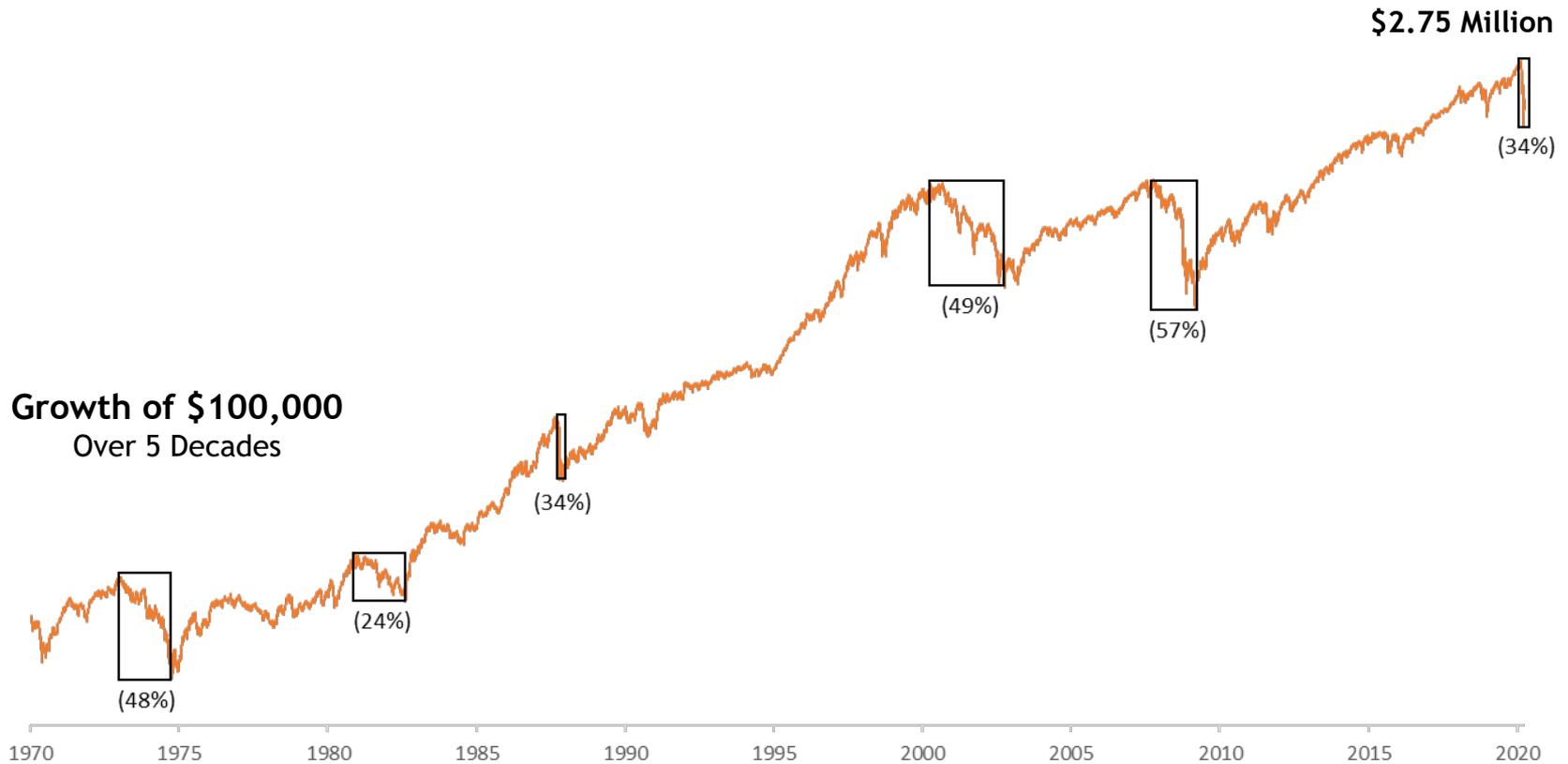
Stocks Over Full Market Cycles - Stick to Your Plan



Since 2007, we've experienced a Bear Market down 57%, the longest Bull Market in history producing a 400% rise. All told, we've earned 116% over the Full Market Cycle, a 6.4% annualized return.

Source: Standard & Poor's, One Capital Management analysis.

Remember - Stocks Are for the Long Run



Source: Standard & Poor's, One Capital Management analysis. Stock returns represented by the S&P 500 over the time period 1/1/1970 to 03/27/2020.

The Bad



Winners and Early to Recover*



**The above companies represent current holdings in OCM's portfolio.*

What We Are Doing

Rebalancing: We slowed our customary rebalancing

Tax Trades: Swapping ETFs to realize losses

Strategic: Fixed Income - Increase our U.S. high yield debt exposure. Similar to 2008-09, the spreads for high yield over credit have increased to very attractive levels +600 bps yield over credit

US Equity - Maintain our exposure to high quality growth stocks which should lead as the economy begins to recover from this unprecedented global pandemic.

International - Add to emerging markets: estimated economic decline in 2020 for EM at (1%) vs. Developed Global Economies at (6.1%); 2021 forecasts at 6.6% growth for EM vs. 4.5% for DM

Tactical: Add - Visa - largest electronic payments network

Add - PagSeguro - leader in mobile banking and electronic transactions in Brazil

Sell Halliburton - oilfield services companies will be slow to rebound; low oil prices will hang over oil companies



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April 23, 2020