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VIEWS FROM CAMELBACK MOUNTAIN

The Panic Is Spreading Faster Than The Virus

We are sorry to report that the spread of the virus-induced global economic panic continues. Over the weekend, Russia and Saudi Arabia failed to resolve their conflict relative to how they needed to share in crude oil production cuts in light of decreased demand for oil as a result of the coronavirus. The price for crude oil was down about 10% on Friday and an almost 20% more over the weekend, into trading Monday morning. As two of the world's largest oil exporters, they were already experiencing stress relative to electric cars, renewable energy sources such as solar and wind, dramatic increases in production here in the U.S., and other long-term threats to the revenue stream from oil production. Add to that, the short-term stress of reduced demand from the coronavirus and the two countries reached a breaking point.

Neither Russia nor Saudi Arabia benefits from dramatically lower oil prices. Both are governed by strong-willed, aggressive leaders. Both countries are facing significant economic and some governance/political stress. We believe that they will eventually come to a resolution which will reduce oil production and allow prices to rise some from current levels. Here in the U.S., oil exploration and production will plummet, and this will further serve to reduce global supply. This is not good news for the state of Texas, Oklahoma, and several other oil producing regions. The American consumer will enjoy lower gasoline and energy prices, which on balance, should be helpful to the economy. The markets see the collapse of oil prices as an indication that damage from the virus continues to spread.

Although information from China can be unreliable, there is growing evidence that the rate of new infections is slowing meaningfully. Iran and Italy are continuing to see significant spread of the virus. Here in the United States, access to testing will clearly result in many new cases and tens of thousands of Americans facing quarantine. We expect the spread of the virus to gradually come under reasonable control, but it will clearly disrupt the lives of Americans ranging from attendance at sporting events and other large gatherings, to business and leisure travel, and even to how consumers shop and go about their daily lives. The market is pricing in a virtual certainty of a pretty significant economic recession.

We learned on Friday, March 6th that the U.S. economy created 273,000 new jobs in the month of February and the Department of Labor increased their estimates for jobs having been created in January and December by another 85,000 jobs. The economy was not just strong and stable going into the virus situation. It was very strong and picking up steam. It is still not certain whether the U.S. economy will go into recession.

With today's volatility, we continue to believe it may be too soon to make additional investments for most clients. We also think the vast majority of the market decline is behind us. It's remarkable that less than three weeks ago, the markets knew about the virus and still hit all-time highs. This has been a very rapid onset market break with nowhere to hide among risk assets like stocks.

Our clients own great quality companies with established businesses, strong balance sheets, and most have a strong record of dividend increases. Now is a good time to let the markets calm down and try not to worry about day-to-day price activity and headlines.

We all need to take the CDC recommendations seriously which include:

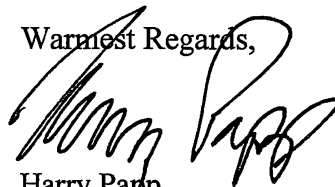
- Avoid close contact with people who are sick.
- Avoid touching your eyes, nose, and mouth.
- Stay home when you are sick.
- Cover your cough or sneeze with a tissue, then throw the tissue in the trash
- Clean and disinfect frequently touched objects and surfaces using a regular household cleaning spray or wipe.
- Wash your hands often with soap and water for at least 20 seconds, especially after going to the bathroom; before eating; and after blowing your nose, coughing, or sneezing.
- If soap and water are not readily available, use an alcohol-based hand sanitizer with at least 60% alcohol.

Going forward, the Federal Reserve will likely lower interest rates again on or before their March 18th meeting. We don't expect that to have much real impact, but it might make the markets feel better. We are also likely to get fiscal stimulus here in the U.S. and in most countries around the world. That might take the form of tax relief, perhaps from payroll taxes for at least a limited time, emergency interest free loans to small businesses, and more complicated tax and cash availability mechanisms for businesses in hard hit sectors such as travel, hospitality, transportation, and leisure. We might even get some longer-term stimulus in the form of infrastructure investment.

As we have observed the spread of the coronavirus, our firm has proactively updated our business contingency plan in the event of staff illness, quarantines, or unavailability of our office. In the event we need to implement contingency planning, we will let you know promptly so we can continue to maintain full communication with all of our clients.

For now, it's important to remain sensible, while also keeping yourself and loved ones safe. We believe stock prices will recover and if the market were to temporarily decline much further, that may lead to significant opportunity.

Warmest Regards,



Harry Papp
Managing Partner
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