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SECURING YOUR WEALTH During COVID-19

apriem ADVISORS

SECURING YOUR WEALTH DURING COVID-19

Over the past quarter, we have become accustomed to the unfortunate reality of COVID-19 and the impact it has had on our professional and personal lives. For most people, focusing on their health has been a top priority, with preserving wealth during economic uncertainty an important secondary priority. We asked our subject matter experts to weigh-in on timely strategies to secure wealth during unprecedented times.

To start our conversation, **Rhonda Ducote**, AIF, President & Principal of Apriem gives us her take on current opportunities in the public markets:

RHONDA L. DUCOTE

President / Principal
APRIEM ADVISORS

Rhonda has climbed the ranks in the financial industry over a 25-year period from a client service representative to Apriem's President. Through Apriem's service offerings, she brings focus on helping the underserved demographics of women, blue-collar workers, and nonprofits. She brought industry-changing initiatives that gained Apriem nationwide recognition notably Financial Times Top Financial Advisors 2017-2019, InvestmentNews Diversity & Inclusion Award, NPD Outstanding Small Business, among others. She often makes speaking appearances for industry professionals on women and finance and a former columnist for Financial Poise Magazine.

Q: WHAT STRATEGIES ARE YOU RECOMMENDING TO CLIENTS RIGHT NOW?

Rhonda Ducote: Apriem offers three distinct investment strategies, which range from 100% equities to 100% fixed income. Our recommendations are based on our client's long-term financial plan, so the ebbs and flows of markets have little impact on the strategies we recommend. With that being said, we currently believe that public equities offer the best growth and income opportunities for our clients. While we have clients invested across a range of various asset classes, most of our assets are in public equities. We are seeking to find the best opportunities in large American corporations that have strong competitive advantages and generate substantial amounts of cash flow. We believe that these two qualities will allow a company to survive and thrive through the ups and downs of today's markets. At the end of the day, we live in a very uncertain world and no one really knows the future. How long COVID-19 will last and the outcome of the upcoming presidential election are a few of today's risks that we must learn to deal with. When we invest with conviction in high-quality businesses, we feel more confident that our money will persist through the turbulence and provide our clients the returns they need to reach their goals.

Q: WHAT HAS CHANGED IN YOUR RECOMMENDATIONS GIVEN THE CURRENT SITUATION?

Rhonda Ducote: Nothing has really changed about our investment process due to the COVID-19 situation. At the start of the pandemic and throughout the market's wild swings, we have had to consistently re-calibrate our valuation models due to the widening of credit spreads, which directly impacts our individual stock valuations. When the Fed stepped in to support the bond market, things normalized quite a bit, so we were not impacted for long. Obviously at the start of the pandemic, the future was much more uncertain and the financial health of a number of companies came into question. All told, we have been quite active over the past few months.

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Our investment philosophy is centered on purchasing high-quality businesses, with strong competitive advantages, when they are trading at a significant discount to their underlying value. With the severe drop-off in economic activity and fear that spread through investors psyches because of this pandemic, several opportunities to buy and sell presented themselves. On the sell side, we exited our position in consumer products giant, Clorox Company (CLX) after investors pushed the shares to levels that we considered highly overvalued, due to the temporary pickup in demand for cleaning supplies. On the buy side, we initiated positions in a few outstanding businesses, which include the Human Resource Management company Automatic Data Processing (ADP), medical device and healthcare equipment supplier Stryker Corporation (SYK) and uniform and sanitation services giant Cintas Corporation (CTAS). All three experienced temporary set-backs due to COVID-19 but we believe each remain in a solid position to prosper over the long-term. Based on our analysis, investors oversold these shares, which created a great opportunity for us to make a few sound, long-term investments.

Q: WHAT HAS STRUCK YOU MOST IN TALKING TO CLIENTS DURING THIS CRISIS?

Harmon Kong: The importance of good financial planning always reveals its value during times of crisis and volatility. We were struck by the amount of households (families) that were financially caught off guard by the economic shutdown brought on by COVID-19. It seems within just 30-60 days after the shut down so many were in a personal crisis lacking the basics of food and shelter. This breaks our heart. One of the foundational principles to financial planning before all else is to establish an emergency fund. This should equal anywhere between 6 to 12 months of living expenses or more depending on your situation and comfort. Having an emergency fund will prevent you from taking on unplanned debt or fire sell long-term assets to cover an immediate need. Before we do any investing for our clients we make sure they have a comfortable emergency fund. Times of economic crisis is always an opportunity to see where attention is needed most. We believe everyone will benefit from having a financial plan yet we know many do not have one. Even some of our newer client that come to us with money to invest have not done a financial plan or maybe they have but it's been years since it was updated. At Apriem we do not invest one penny of our client's money until we completely understand the "why" which is revealed during the financial planning process. Additionally, this process is not a onetime event. It is an ongoing process that develops, evolves, and changes over life and world events.

HARMON A. KONG

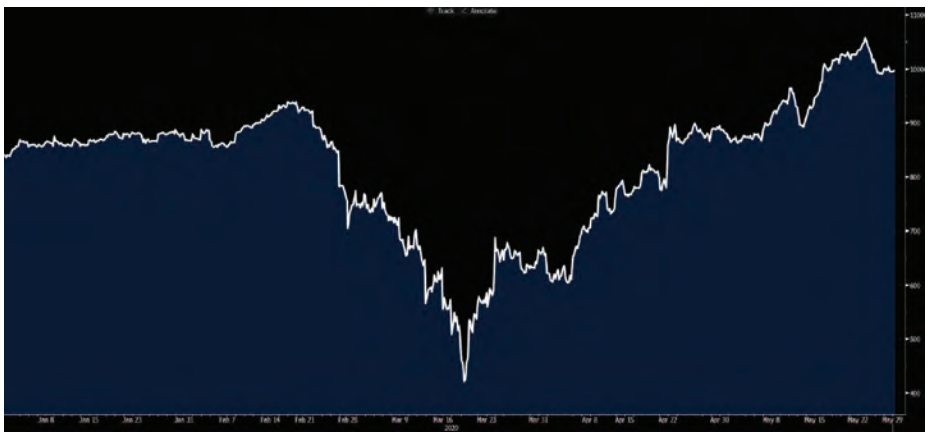
Co-Founder
APRIEM ADVISORS

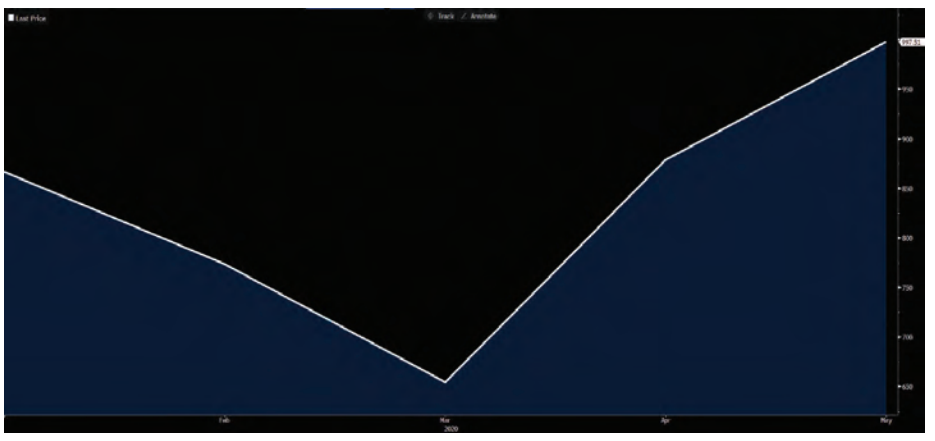
Harmon is experienced in the dynamics of multi-generational family wealth management. With family roots from Hawaii, treating each and every client like a member of his "Ohana" ("family" in Hawaiian) is the foundation to Apriem's long-term success. After almost a decade of working for a large investment firm, he co-founded Apriem over 20 years ago to focus on the value of relationships rather than just the value of portfolios. His vision for building a passionate team of experienced professionals with a corporate culture that values people over profits remains a guiding principal still today.

Volatility: In the Eye of the Beholder

Wall Street always likes to use fancy terms and phrases to complicate things. Liquidity, volatility and standard deviation just to name a few. Many of us know their technical definitions, but what do those terms really mean? Let's start with volatility, one of the most overused phrases in my opinion. How would you define it? If you studied finance in school, I would expect the classical definition, "it's a measure of dispersion around the mean." While technically correct, what does it mean and why is it important?

Most of the time I hear the term volatility used when it's unusually high. Like this headline from CNBC, "Brace for a lot more market volatility". From that headline I would take it to mean, expect the market to go up and down more than usual. But when CNBC and other market pundits use the term volatility, it is typically in a negative connotation, to describe when markets are falling. That CNBC headline should have read, "Brace for a lot more market declines". That would have been more simplistic. The unfortunate thing is that no one ever talks about volatility in a positive way. No one ever mentions that market volatility sent their 401k to a record high in 2019.





Let's take another popular term, liquidity. What does that mean to a Wall Street type and non-Wall Street type? Liquidity is generally thought of as the ability to get in and out of an investment quickly and cheaply. Think of it in terms of your personal investments. Stocks, ETF's, and index funds are all quite liquid. Selling a hundred shares of Chipotle (currently my favorite COVID takeout place) is simple. . Chipotle's price is updated constantly, so the price you see is the price you get.

But how about your home? Most people would hire a real estate agent to help price and list the home. Once you find a buyer, you must agree to the price. Since there is no public price for my home, the transaction price is subject to many variables. Then after you agree to the price (if you can agree to the price), there is the traditional inspection process, escrow, and all that good stuff. Clearly homes are much less liquid than your Chipotle shares. But is that good or bad?

Vanguard released an interesting paper the other week discussing the benefits of illiquid investments, specifically, private equity. The paper coincides with Vanguard's recent decision to move into the private equity space after decades of avoiding them. (Jack Bogle must be rolling over in his grave). One of the many benefits of private equity is its lack of liquidity. Markets are emotional and thus the prices of all stocks like Chipotle can be emotional too. Sometimes TOO emotional. Since shares are constantly changing hands, the value of Chipotle changes too. Often too much during times of stress. In the past few months alone, Chipotle's stock price has fallen in half and doubled in price. While surely, these are "volatile" times, how can a business like Chipotle be worth $25 billion one day, $12 billion a few weeks later, then almost $30 billion a few weeks after that.

But that's where the rub is. Volatility is only bad if you act on it. It would be very unfortunate if you had to sell Chipotle at those depressed levels. That is where the liquidity issues come in. Vanguard claims the emotional nature of the liquid market can be a negative thing if you act on it. Investments like private equity and your home aren't so liquid, so even if you wanted to sell at depressed levels, it's lack of liquidity is a speedbump to make you think twice. That lack of liquidity is actually a positive thing they claim, "strengths can be weaknesses and weaknesses can be strengths." The lack of liquidity makes your home seem less volatile, even during crazy times. Not seeing your home change in value second by second makes people believe home values are less volatile and a better investment. Surely owning an investment that doesn't rise and fall as much as Chipotle, is a good thing, right?

Take a look at the two charts. Which one would you rather own? The one on the top looks pretty volatile. If this was the balance in your 401k, the big swings would be scary. The one on the bottom seems a lot less volatile. A little calmer. What's the better investment? Well both charts are showing you the same investments. The one on top is a chart of Chipotle using daily prices, while the one on the bottom is also Chipotle, but showing you monthly price data, specifically the end of the month. The starting line and finish line are the same, but that path you took is way different depending on how often you look at it.

Many of you look at your portfolios every day and some even have maintained elaborate spreadsheets of each accounts' balances, every day. But the more you stare at your portfolio or 401k balance, the more volatile it appears. Especially in the last few months, watching your investment balance rise and fall dramatically can make you batty. But if you simply look at your investments a little less, they will become less volatile. You can magically simulate some of the best traits of illiquid investment like private equity by just making a few small changes to your routine. And hopefully make you less inclined to make emotional decisions. Most times, the best thing to do is not make any investment decisions based on the crazy day to day moves of the market.

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With two decades of experience, Ben spearheads the firm's investment management using goals-based asset allocation, proprietary stock selection process, and tax-efficient investing. He has been quoted in top financial publications including the Wall Street Journal, CNBC, and Bloomberg, sharing his views on stock and bond markets, interest rates, behavioral finance, and investment trends.