SEELEY
CAPITAL MANAGEMENT

FINANCIAL STRATEGIES FOR SUCCESS

QUARTERLY OVERVIEW

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Thank you for the trust you have placed in us over the years. For nearly two decades, we have come to work every day with the single goal of helping you exceed your long-term financial goals. Sometimes, that journey can seem quite smooth. At other times, however, the path to your financial future becomes more arduous, and the journey becomes uncertain.

The past six weeks have tested everyone's resolve, as uncertainty about the Coronavirus and its impact on the economy have caused heightened volatility and declining stock prices. Unlike past periods of tumult for the market, this episode has another component – concerns about our health and the health of our families and friends. If the past is any guide, this too shall pass, but it will take time. The stock market and the economy have been tested many times over the past century, and each time they have ultimately come back stronger. For now, though, we would expect uncertainty and heightened volatility to stay with us.

TRYING TO MAKE SENSE OF THE RECENT PAST

Over the past six weeks, market participants have witnessed history being made several times. From February 19th (the all-time high for major indices) to March 23 (the recent trough), the equity market declined 33.9%, the steepest and quickest drop on record. A day later, it began its best three-day run since the Great Depression. Notably, most of the largest one-day moves in the market have come in the middle of a bear market. According to the Bloomberg, "The markets moved an average of 5% per day in March, the most for any month on record." The unprecedented volatility across all asset classes – from perceived safe havens like gold and Treasuries to riskier assets like stocks and fixed income – has raised many questions for investors. We attempt to answer some of the many questions below. Given the speed at which all of this is taking place and our singular perspective, we don't have all of the answers. We do have a time-tested process that can act like a roadmap during uncertain times.

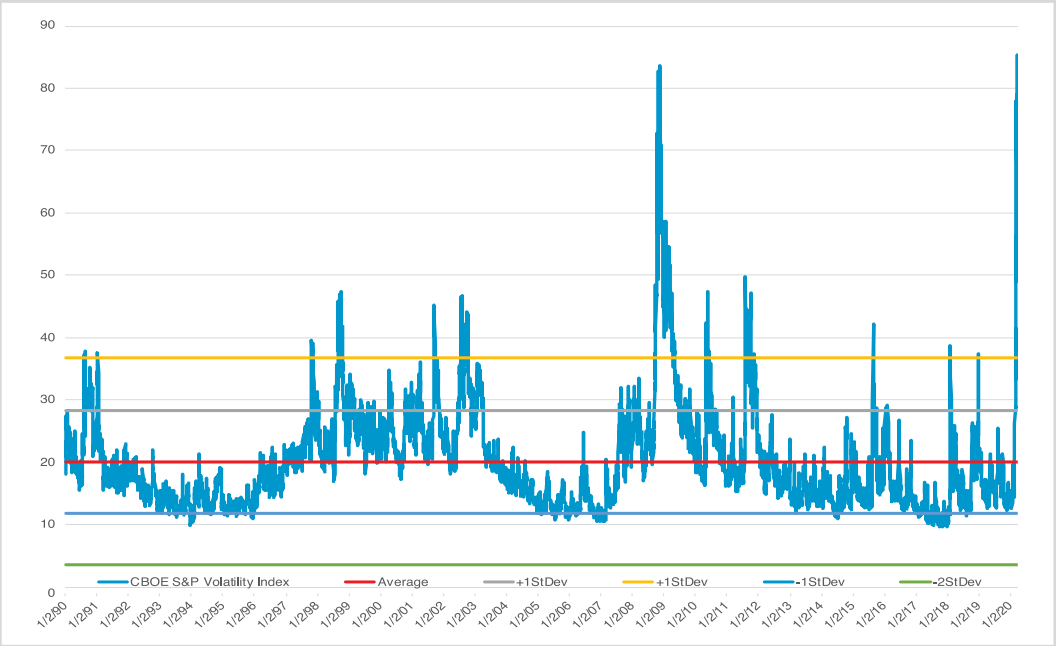
WHAT HAS TAKEN PLACE?

Uncertainty and illiquidity have driven markets. During the past six weeks, markets have had to adjust from complacency to the realization that the spreading coronavirus and the oil price collapse materially threaten the global outlook for growth, corporate profits and debt service. Global capital markets, which had been expecting a recovery from the manufacturing recession and trade war disruptions, are now pricing in a global recession.

Credit spreads have widened significantly over the past six weeks.

With extreme volatility and velocity, US stocks declined 32% from their February highs before regaining half of their losses by April 9th. Option-adjusted spreads for both high yield and investment grade debt have more than doubled to over 900 basis points and 300 basis points, respectively—the highest levels since 2008. In the middle of the storm even long-duration US Treasuries sold off, which is not typical for a downturn. Ordinarily, the more than 60% collapse in oil prices would have topped the headlines. Many energy companies face challenges to their business models and their balance sheets.

During past cycles, we have seen that volatility tends to peak before markets trough. For nearly every asset class, volatility remains elevated but down from recent historic highs. For perspective, the CBOE S&P Volatility Index, aka the VIX, has averaged 19.2 since 1990 and reached a closing high of 82.69 on March 16th. In 2008, the "VIX" peaked in the fourth quarter, and markets finally bottomed on March 2009. During the euro crisis in 2011, the VIX peaked in August, and markets troughed in October. A similar one-to-four-month pattern could be seen in 2015 and early 2016. While there are no guarantees that this pattern will repeat, it stands to reason that the bottoming process will take time and that patience is required.



Source: Factset

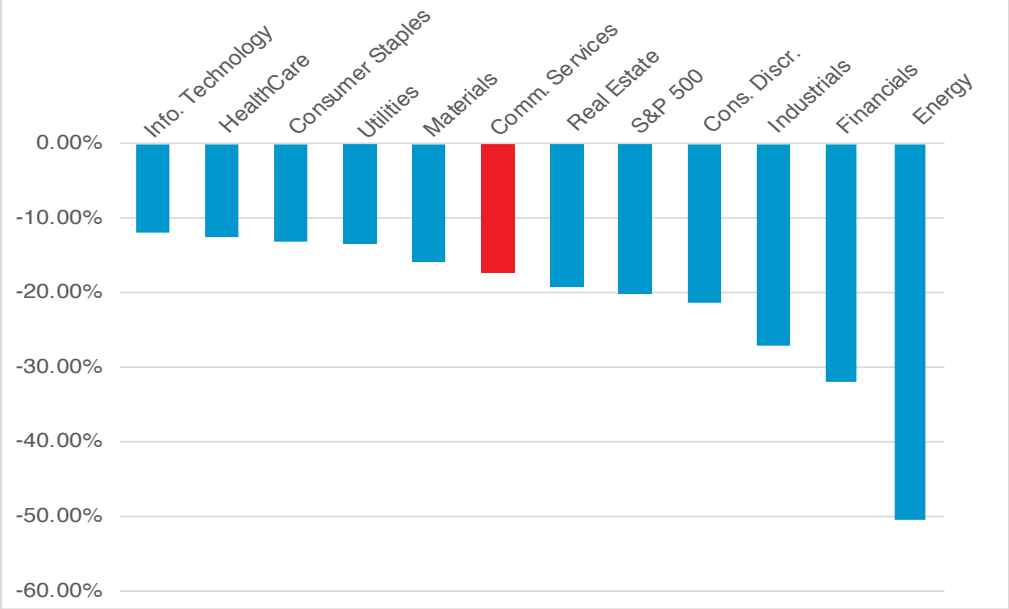
EVERYONE HEADING FOR THE SAME EXIT

Many professional investors entered the recent Coronavirus with "peak" bullish positioning

Our work suggests that many professional investors entered the recent Coronavirus with "peak" bullish positioning. We saw high ratios of call options (optimistic because it gives you the right to buy) to put options (bearish because it gives you the right to sell). Similarly, it appears that many investors were "crowding" into similar securities and strategies. Furthermore, many investors (both individuals and institutions) were using leverage to invest. They were borrowing money to buy securities in an effort to enhance returns…and risk.

At the peak of the volatility in mid-March, we saw a rush to unwind these trades. Selling begat selling, forcing some investors to raise cash by selling what they could, not what the should. Even "lower-risk" assets like gold and Treasury bonds began selling off in an effort to raise cash. In one extreme (but arcane) example of risk aversion, investors actually started differentiating between newer, "on-the-run" Treasuries versus existing "off-the-run" Treasuries. This aberration has taken place before most notably during the Long-Term Capital Crisis in 1998 (my first three months on Wall Street). During that period, the widening gap caused that the fund's highly-leveraged trade to lose significant money and force a rescue by the Federal Reserve and Wall Street banks. In the recent tumult, funds utilizing the strategy bent but didn't break. The Federal Reserve has acted quickly – utilizing its playbook from the Financial Crisis to keep the system functioning, to maintain critical liquidity where it was needed, and to ensure that small problems don't become systemic issues.

FIRST QUARTER 2020 SECTOR RETURNS



Source: Factset

A LONGER-TERM PERSPECTIVE

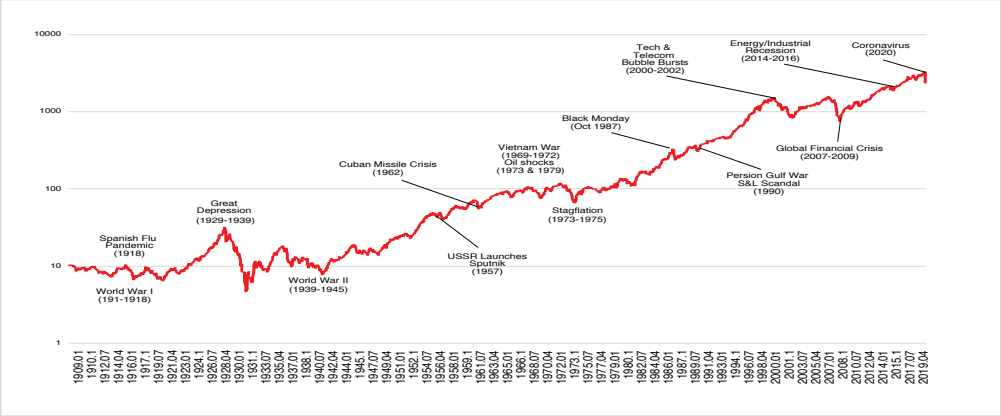
The economy is the patient, and it has been put in a coma to fight the disease.

The novel Coronavirus has impacted the world on a scale that has rarely been seen in our lifetimes. It has devastated families and communities; it has rapidly altered how we interact and how we work; and it has dramatically curtailed economic activity and wreaked havoc on asset prices. Essentially, we like the analogy we have heard that the economy is the patient; telling workers to stay home is the equivalent of putting the patient in a medically-induced coma to help fight the disease. The government and central bank are playing the role of doctors who have enacted policy and legislation to provide life support during the procedure. Market pundits, economists, politicians, and your eccentric uncle on Facebook have offered up plenty of opinions about how this medical crisis will unfold from here. Based on our reading, the consensus appears to fall into the camp of a relatively short but very deep recession leading to a sharp recovery in the market in the second-half of the year. While this seems plausible and hope its probable, we will continue to follow our process, which tells us to maintain a more defensive posture than usual given the sharp declines in economic activity.

THIS, TOO, SHALL PASS

While much of this feels new and scary, markets have endured similar dislocations over the past century – world wars, other pandemics, prolonged economic malaise, and financial crises. Taken as a moment in time, they each have rocked investors. Taken as a chapter within a longer tale, however, we can see that in every instance, the market has shown its resilience. This is likely why the adage, "It's time in the market; not market timing," has withstood the test of time. The recent declines are unlikely to turn into realized losses for long-term investors if they maintain a well-diversified portfolio and aren't forced to sell when prices are low. Earnings for U.S. companies have grown at approximately 5.14% per year over the past century. The path has by no means been in a straight line, but the backdrop of profit growth does help explain why the market has historically moved past each crisis.

S&P COMPOSITE TOTAL RETURN (1909-PRESENT)



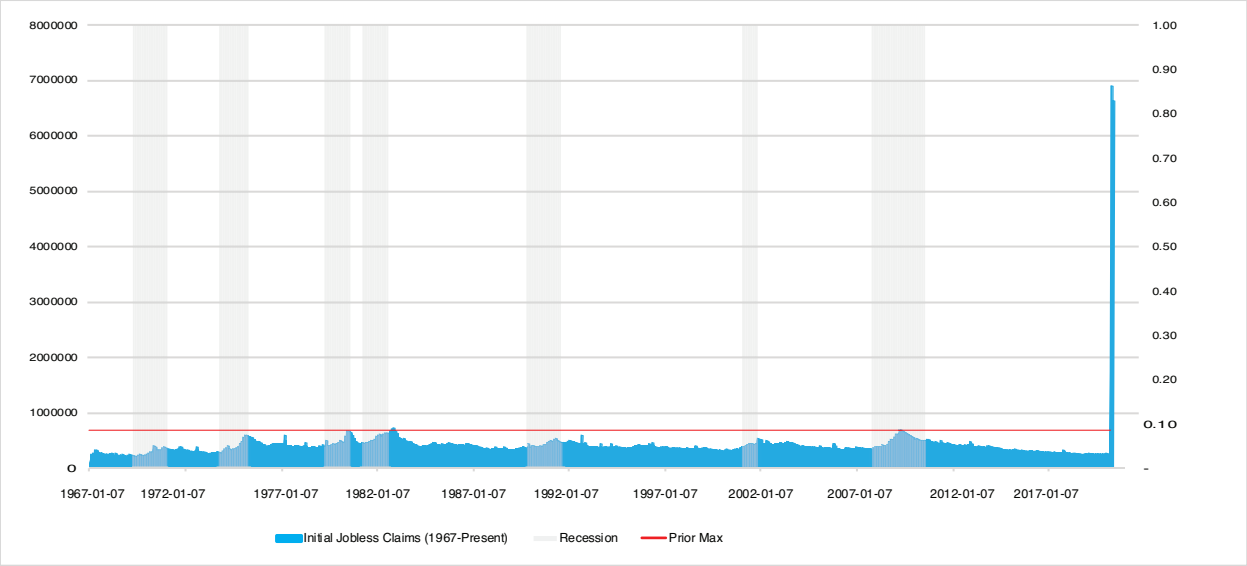
Source: yale.edu & Seeley Howard Private Wealth

MAKING THE MARKET

TRYING TO TIME THE MARKET IS DIFFICULT AND COSTLY

Many investors strive to sit on the sidelines until it's time to jump back into the market. Unfortunately, no bell goes off at the top or the bottom, indicating when the best times are to buy and sell. Attempting to time the market can be costly. Indeed, research provider, Morningstar, has published data through the end of 2019 showing that over the past 20 years, your returns dropped dramatically if you missed the 10 best days in the market. Those who were fully invested generated returns of just over 6% per year; if you missed the 10 best days, however, your returns dropped to approximately 2.5%. Your returns dropped to nothing if you missed the 20 best days in the market.

INITIAL JOBLESS CLAIMS, 1966-PRESENT



Source: Federal Reserve

CHRIS SEELEY

Christopher J. Seeley has been advising private and corporate clients since 2002 with a single purpose–to help them reach their financial goals by providing an unparalleled level of service, advice and accessibility. Chris has grown his practice by listening to clients and focusing on their unique needs. This approach has helped them grow their assets, address any challenges, and secure their legacies. Chris specializes in inter-generational wealth transfers, estate planning, and preparing clients for retirement.

Chris began his career as a Financial Advisor at UBS Paine Webber in Boston and Smith Barney in Springfield. Chris graduated with B.A. in Philosophy from George Washington University. He holds the Series 7 and 66 licenses and is registered in 44 states. He has offices in Washington, D.C., Boston, and Springfield.

STABILITY AT HOME

WHAT ARE THE AUTHORITIES DOING TO STABILIZE MARKETS?

First, our work suggests that policy makers have learned from the last crisis and were quick to act to ensure that markets continue to function. Monetary policy has eased and is likely to continue to do so. Central banks globally have cut rates and, more importantly, are providing liquidity to their banking systems. The Federal Reserve has put into place much of its toolkit from the financial crisis a decade ago, with a combination of rate cuts, liquidity facilities, and other programs targeted at keeping markets functioning. From a fiscal perspective, Congress recently passed a $2 trillion emergency relief package to help minimize the widespread decline in economic activity and employment. The rapid action and large numbers involved were timed to get ahead of a surge in unemployment that began with the March 26th, 2020 initial jobless claims data.

POSITIONING AND NEXT STEPS

"The Fed has been extremely proactive, which has helped stabilize markets."

Expectations have changed significantly over the past six weeks. Many of us have begun to adjust to this new normal of working out of our homes, gathering over video conferencing, and even starting new careers as teachers to our children. We are now bread makers and toilet paper hoarders. This "Groundhog Day" existence has many looking for subtle changes in the indicators to either give us hope that we have turned a corner or found cause for renewed pessimism. This has manifested itself in the markets through the powerful moves in both directions in recent weeks.

STEVE HOWARD

Steven T. Howard joined the firm following a 20-year career creating and managing client portfolios at Morgan Stanley and predecessor companies. As a Managing Director based in New York, he focused his attention on helping high net worth individuals build and preserve wealth using a disciplined, process-based approach to investing. Steve has also held various strategy and research positions within Citigroup.

He spent two years managing the Citi Private Client Investment Strategy team in London and worked as the financial services strategist for Smith Barney in New York. He received an M.B.A. degree in Accounting and Finance from New York University's Stern School of Business. Steve's background in portfolio management, asset allocation, and macroeconomics dovetail well with the team's client-first approach to wealth management.

To us, it is unlikely that life returns to normal by the end of April. As such, we caution investors not to get fearful that they have "missed" the bottom. Don't let the market dictate your feelings. The market has become a Rorschach Test of sorts, with days of positive returns allowing us to think we have turned a corner and those filled with red a cautionary tale of more pain to come. In our view, patience is required. We will continue to use our time-tested process to increase exposures to the market more meaningfully. Prior to the market dislocations, we had raised cash levels and tilted allocations more defensively. Unfortunately, the ferocity of the downturn has not left them immune to the market declines. They have elevated levels of cash, which can be put to work when we begin to see lower volatility, the potential for an inflection in economic growth, and a stabilization in corporate profits.

WHERE DO WE GO FROM HERE?

Over the long-term, we are optimists. Over the near-term, we are more pessimistic. Profits at the best, most resilient companies in the country appear poised to drop by 20% this quarter. We have seen some forecasts showing that overall S&P 500 profits could be negative this quarter. Remember, revenues can grind to a halt suddenly, while many expenses are fixed in the near-to-medium term. In terms of a quick snap back, a V-shaped recovery may not be realistic. Those people who have been let go and those businesses that could not make it through the period of tumult will not be instantly reconstituted into the economy. Global supply chains may take time to restart.

THEMATIC

GROUNDHOG DAY INTERRUPTED: THINGS TO CONSIDER

For most of us, daily life has changed dramatically from six weeks ago, as COVID-19 has largely taken control of things. Social distancing has led to a new routines, new responsibilities, and new challenges. While some are adding new roles, others have found that the normal rush has subsided, freeing up time for long-neglected items on the to-do list or for new pursuits. In this quarter's thematic section, we try to tackle some things you can do while waiting for life to return to normal.

FINANCIAL OPTIMIZATION

Many investors hold at least a portion of their portfolio in index funds and ETFs.

Consider using the recent volatility to implement a tax-loss harvesting strategy to offset future gains. Many investors hold at least a portion of their portfolio in index funds and ETFs. For most ETFs, there are often several different securities that offer similar (but not identical) exposure to the market. By swapping securities, one can realize a loss without triggering a wash sale or altering your overall allocation to the market.

With share prices at multi-year lows, the total tax paid on the conversion could be lower now that at any time in the next few years.

Index and Tax Rates Could Move Up Between Now and Retirement: With record deficits and the recent downturn, now may be a good time to consider a Roth IRA conversion. Why? With share prices at multi-year lows, the total tax paid on the conversion could be lower now that at any time in the next few years. Second, the 2017 tax cuts are set to expire this decade. With budget deficits higher than ever, income tax rates could be moving higher. By paying taxes on now, you could avoid higher taxes later (whether because you will be in a higher bracket or because tax rates overall will have moved up by then). Before doing this, please consult with your tax advisor to see if this may be something to consider.

If you are working from home, identify areas of the budget that benefited from this new normal.

If you are working from home, identify areas of the budget that benefited from this new normal; i.e., money earmarked for gas, housecleaning, travel, and eating out. Set it aside and invest it with a specific future goal in mind, whether its charity, travel, education, or retirement. As we have stated in past reports, Albert Einstein purportedly called compounding the eighth wonder of the world because of what happens when returns are applied to ever growing sums of money. If you are out of work, please call us to see what options are available to help you manage through this challenging period.

Take some time to think back at the securities you didn't buy that got away.

Take a second look at the ones that got away. Very few stocks, bonds, etfs, and funds have been spared by the Coronavirus. Take some time to think back at the securities you didn't buy that got away. Many of the investments you passed on or were too expensive over the past few years. Identify several that still look attractive and allocate some funds to them.

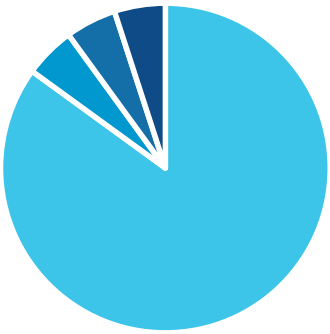
If you redirected $20 towards an investment in the market each month at an average return of 8%, it would grow to nearly $46,000 over 35 years .

Take a closer look at the bills and get rid of some of the non-essential monthly subscriptions that have added up over the past decade. Use the proceeds to add to your savings or investment account. Over time, these little things can add start to add up. If you redirected $20 towards an investment in the market each month at an average return of 8%, it would grow to nearly $46,000 over 35 years. That's not a bad extra stash of savings when you retire.

SEELEY CAPITAL TACTICAL ASSET ALLOCATION FRAMEWORK

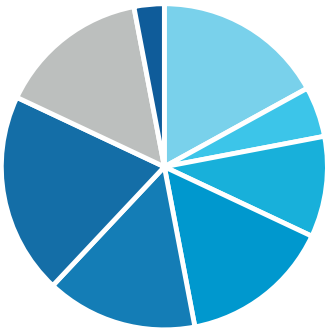
Model **Strategic**

1. Cash Management	Asset Type	100%	Rep. Holding
Cash Equivalents	Cash	85%	VMMXX
Short-Term Government Bonds	Fixed Income	5%	VGSH
Short Term Inflation Protected Bonds	Fixed Income	5%	VTIP
Specialty - Market Neutral	Alternative Investment	5%	CMNIX



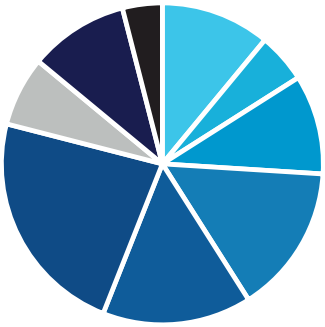
Model **Strategic**

2. Conservative	Asset Type	100%	Rep. Holding
Cash Equivalents	Cash	17%	VMMXX
Specialty - Utilities	Equity	5%	VPU
Domestic Large Cap Growth	Equity	10%	HGIYX
Liquid Alternatives -- Mortgage Fund	Fixed Income	15%	RFXIX
Domestic Fixed Income	Fixed Income	15%	DBLTX
Domestic Balanced	Balanced	20%	AMBFX
Specialty - Market Neutral	Alternative Investment	15%	CMNIX
Domestic Large Cap Value	Equity	3%	BAC PR L



Model **Strategic**

3. Moderate Conservative	Asset Type	100%	Rep. Holding
Cash Equivalents	Cash	11%	VMMXX
Specialty - Utilities	Equity	5%	VPU
Domestic Large Cap Growth	Equity	10%	HGIYX
Liquid Alternatives -- Mortgage Fund	Fixed Income	15%	RFXIX
Domestic Fixed Income	Fixed Income	15%	DBLTX
Domestic Balanced	Balanced	23%	AMBFX
Domestic Large Cap Core	Equity	7%	VIG
Specialty - Market Neutral	Alternative Investment	10%	CMNIX
Domestic Large Cap Value	Equity	4%	BAC PR L



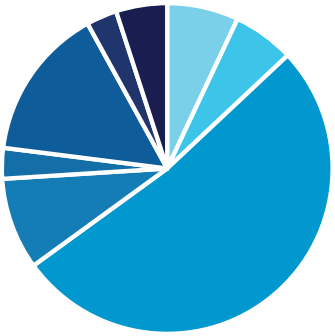
The models advertised herein are not designed based on the individual needs of any one specific client or investor. In other words, it is not a customized strategy designed on the specific financial circumstances of the client. You are also provided the opportunity to place reasonable restrictions on the securities held in your account. Investing involves risk. Depending on the types of investments, there may be varying degrees of risk. Investors should be prepared to bear loss, including total loss of principal.

SEELEY CAPITAL TACTICAL ASSET ALLOCATION FRAMEWORK

Model		Strategic	
4. Balanced	**Asset Type**	**100%**	**Rep. Holding**
Cash Equivalents	Cash	9%	VMMXX
Specialty - Utilities	Equity	5%	VPU
Domestic Large Cap Growth	Equity	20%	HGIYX
Liquid Alternatives -- Mortgage Fund	Fixed Income	15%	RFXIX
Domestic Balanced	Balanced	30%	AMBFX
Domestic Large Cap Core	Equity	10%	VIG
Specialty - Market Neutral	Alternative Investment	8%	CMNIX
Specialty - REITs	Alternative Investment	3%	XLRE

Model		Strategic	
5. Opportunistic Growth	**Asset Type**	**100%**	**Rep. Holding**
Cash Equivalents	Cash	8%	VMMXX
Specialty - Utilities	Equity	5%	VPU
Domestic Large Cap Growth	Equity	45%	HGIYX
Liquid Alternatives -- Mortgage Fund	Fixed Income	8%	RFXIX
Specialty - Health	Equity	3%	IBB
Domestic Balanced	Balanced	10%	AMBFX
Domestic Large Cap Core	Equity	12%	VIG
Specialty - Market Neutral	Alternative Investment	5%	CMNIX
Specialty - REITs	Alternative Investment	4%	XLRE

Model		Strategic	
6. Opportunistic Growth	**Asset Type**	**100%**	**Rep. Holding**
Cash Equivalents	Cash	7%	VMMXX
Specialty - Utilities	Equity	6%	VPU
Domestic Large Cap Growth	Equity	52%	HGIYX
Liquid Alternatives -- Mortgage Fund	Fixed Income	9%	RFXIX
Specialty - Health	Equity	3%	IBB
Domestic Large Cap Core	Equity	15%	VIG
Specialty - Market Neutral	Alternative Investment	3%	CMNIX
Specialty - REITs	Alternative Investment	5%	XLRE



OUR SERVICES

FINANCIAL PLANNING

Cash Management and Investments
Retirement Planning and 401(k)
Stocks, Bonds, Mutual Funds
529 College Savings Plan
Insurance and Annuities

INSURANCE SERVICES

Term Life Insurance
Permanent Life Insurance
Care Insurance

SETTLEMENT PLANNING

Comprehensive Settlement Valuation
Mediation Support
Personalized Needs Analysis and Structured Settlement Design
Availability To Assist Both Claimants and Defendants

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