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Hello and welcome to a very special Dividend Cafe, live from Washington DC where I will actually leave here in a few hours, but have been here since Tuesday. And I'm gonna be talking a bit more in the Monday Dividend Cafe about some of the meetings this week that I can talk about. It's been a very constructive week for me, and I'm excited to share some things. But I'll let that wait until Monday's Dividend Cafe. The priority I have today when I say Special Dividend Cafe, is that we are sitting here right now in roughly this five year anniversary, it's exactly the five year anniversary of roughly the period throughout the middle part of March in 2020, I would argue that a lot of the world changed. It is certainly a moment that will be in the history books and there's a particular market focus I wanna have today in Dividend Cafe. When people think about that COVID moment in the onset of what became a COVID period. There are a lot of ways you could go with this topic.

First of all, it didn't last just two or three weeks in March. It ended up, in some ways, lasting a couple of years for some people anyways. But the cultural aspects, the social aspects, what it meant to our social cohesion as a society, the political ramifications, there's longer term and peripheral dynamics

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around the COVID moment that are actually not the subject to Dividend Cafe today.

Although, I guess I would be lying if I didn't tell you. I do have pretty strong opinions on a lot of that. I think about that a lot and I think that there was a sense in which COVID exacerbated a lot of tensions in society, not united despite tensions in society. It was uniquely traumatic event in that regard that a lot of times, traumas in our society serve as a unifying force, and this was very much quite the opposite.

But what I want to talk about in Dividend Cafe today it is a very specific period in or we're gonna start our little walkthrough here. On Sunday, March the eighth of 2020 and end up until the final week of March and so as I'm sitting here recording on the 21st, we're literally right at that, that five year mark and the eighth was a Sunday and The Bahnsen Group had been a sponsor of the Hogue Classic golf tournament in Newport Beach. And we had hosted quite a few clients throughout the weekend and had a big tent on, I think it was the 16th or 17th hole, and on the Sunday afternoon of the tournament.

At three o'clock Pacific time, six o'clock eastern time when futures markets open up. And because of course we were on the West coast, we were still smack dab in the middle of the golf tournament when futures opened and the Dow futures are down about a thousand points. The market had been going down slowly and steadily.

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Not a lot of violence, but a downward trend for a couple of weeks already. I think the high point for the S&P end, Dow had been February 19th, so by March 8th, the markets had already been coming lower. But oil completely fell out of bed. The oil futures broke down. In response to the announcement that Saudi and Russia were gonna be flooding the world with oil, and of course.

This was on top of, not only was supply and production commitments going full steam ahead but at that time it was very obvious that there was some level of demand erosion. China was already dealing with a lot of COVID issues and Italy was, and even though the markets at that point didn't know the severity of what demand erosion was about to mean, oil dropped from something in the range of \$55 to something in the range of \$35. And so at that point, you were well below the breakeven price of every oil producer in the country. And we sat there at the golf tournament and it was a chilling moment that was about to get a lot more chilling. And so I had to take a red eye flight that night to New York.

I landed early in the morning and. It was to be my very first day in our brand new offices at the Graybar Building by Grand Central. And our apartment at the time was on the upper west side of Central Park. So Joleen and I had a long walk from our apartment to the office. I had a new assistant starting that day.

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And what would end up happening was the market would drop 2000 points that day roughly give or take, an eight, 9% drop, which was at that time, the worst day for market since Black Monday, and that was on Monday, March 9th. And on Tuesday the 10th, I was here in Washington, DC and I was at the White House meeting with National Economic Council, quite extended meetings with Larry Kudlow, who was the director of NEC, a lot of rendezvous with some people that day, but also just general discussion that was very clear to me, and I most certainly did not know what was about to happen. The markets didn't yet know, the country didn't yet know, but I will tell you that I don't believe the administration, the White House policymakers knew either where exactly we were headed.

That's how quickly things were moving. And the very next day Wednesday, March 11th, in the evening is what I think a lot of people will always remember as the real beginning of the country's COVID moment. There's symbolic cultural things that go along with it. The announcement of Tom Hanks contracting coronavirus famous American celebrity, getting this disease that up till now we thought of as this highly fatal.

Thing, and it was not yet in this mass contagion across the country. So there was a big cultural import around someone famous like Hanks contracting it. They canceled the rest of the NBA season. But then the policy side of it was the president. Then, President Trump 1.0 announcing from the Oval Office that he was cutting off all travel.

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In from people in, in, from Europe and Asia. And so now it was, okay, this is quite a serious messaging to markets. And the next day the DOW set another record for its worst day, since 1987, Black Monday. And we dropped 2000 points and from a lower price than we had been. So the percentage violence was getting worse.

There was this general question as to exactly how bad things were going to be. Markets were absolutely in forward facing panic mode, but I have to be very clear 49 states at that time had didn't have a single diagnosis of COVID. There was no indication yet of lockdowns. There was significantly contracted activity.

When I was on that Acela train to Washington, DC there was barely anyone else on it. When I was walking around Manhattan you could tell that there was a lot less activity. And then the next day, Friday, March the 13th. Markets came back 2000 points, so they almost made back what they had lost on Thursday, but were still down quite a bit for the whole week. And they went up that day because Vice President Pence had announced that there was some sort of pro, they announced a task force. I. Which famously was involved him, but a gentleman that most of the country had not heard of at that time by the name of Anthony Fauci a woman most people had not heard of at that time by the name of Deborah Burkes.

They put together this coronavirus task force, but then what markets responded to was announcement that they had this

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tracking situation that I believe, if I remember correctly, was in concert with Walmart and some other things they were gonna be doing that they felt was going to serve as some kind of a containment deal.

That would certainly not last, and we'll get to that in a second. But as I walked home from my office that day, Friday, March 13th, we were scheduled to come back, my family to come to California. My, my kids were in school in New York, had a spring break, and we were gonna be coming back, I think on Monday anyways.

And as I walked back that Friday, I midtown looked at me like the rapture happened and I didn't get taken. It was empty. Ghost town. And I called my wife and said, I'll be back in a few minutes. I'll be to the department in a few minutes. We should try to get out tonight. And we moved our flights and we flew back and landed in, in Los Angeles in the middle of the night and figured we'll just ride out the kids' spring break for the next couple weeks here in California and come back to New York in two weeks and we would end up coming back in June.

And of course, not knowing at the time what, what was going on. That Sunday night, which was March the 15th I had a phone call with a client who had some outside asset things that were what are called naked options, but have unlimited loss and are margined. And it was a very traumatic and painful event that I always hold onto emotionally is the moment I realized how scary this was, what was going on.

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And then that next day, Monday, March 16th, would become the worst day for markets since Black Monday. We now had three of the worst days in six days, and the market was down 3000 points, 13%, 12.9%, and the violence was massive. Now, then we were still having a little back and forth volatility. I think the next day on St. Patrick's Day, the 17th, we were up a thousand points, if I remember correctly. Then dropped a thousand the next day or flat the next day down a thousand the next. But it was just, there was no sign of any kind of improvement, massive uncertainty, and then all the lockdown stuff beginning and spreading to other states ultimately leading to a national shelter in place, order and so forth.

The following Monday, which was March the 23rd, did represent, this is just an amazing fact. March 23rd represented the bottom of the market. I. At that point, I don't think that people in at least 48 states even knew anyone who had COVID. There were starting to be more diagnosis mortality were heavy in New York State.

They especially around nursing homes, they were not heavy really much anywhere else yet. But this is how far of it was. The CARES Act didn't even pass for a couple more days. Obviously the vaccine wasn't for eight more months, but you're talking about a very early stage. Where things were to go with COVID, both in terms of mortality, health repercussions, but also just the broader sense of what the impact was gonna be with lockdowns and all the things that ended up happening.

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School closures at this point, sports stuff was all closed. Events were closed and whatnot, but that's how far in advance the market bottom was and. A couple days later, Congress passed the CARES Act. There, there were, there was ongoing market volatility. Markets did not end up making a new high recovering everything till later in the year, but they did.

And a lot of things within the market were back up by June. But the point is they stopped going lower on that Monday, March 23rd. That's a stock market index comment. Corporate credit spreads were still wide. What's called CMBS spreads, commercial mortgage backed securities. These are very vital indicators in the economy, they were still very wide. The unemployment was going to skyrocket higher weekly jobless claims exploded, higher GDP deterioration, drift completely fell out of bed. So obviously there was economic and other financial market deterioration that was still extremely severe. But the equity markets had stopped going down from this, what became 35% drop in the S&P 500 from February 19th to March 23rd.

So essentially little over a month, 35% drop. I wrote about it, then I believed it, then talked about it quite a bit then, and today I know even more than I did then reaffirming this idea that what we had experienced in that week of equity market, downside violence, was a national margin call. A significant amount of our financial system and risk assets is levered.

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And an awful lot of forced selling took place as prices dropped to places where people had to sell, and it pushed a lot of things down very quickly. I can't emphasize enough how unique it is that the markets dropped so much, so quickly and how non-unique it is that markets began going back higher well before.

The other fundamental conditions did, and I'm gonna talk about that more in a moment, but we certainly had a situation where people that had no leverage, that are not for selling, that are regular buy and hold type investors, were seeing their values drop a great deal. As other people who were forced sellers were bidding prices down.

And that becomes a story that we, I have a huge takeaway on. I want to talk about. Congress passed the Cares Act on Wednesday, March 25th, call it \$2 trillion of additional spending. And that included the Paycheck Protection Act, that really basically represented just hundreds of billions of dollars of businesses getting the money as loans. Right away and then having it forgiven later when they could validate that they had kept their payrolls going and so forth. So a very unique kind of backwards experiment where people had to borrow money quickly and prove they didn't have to pay it back slowly, as opposed to usually it's a long process to be able to borrow money.

And it was a way to try to get a lot of liquidity in the financial system and do what they could to keep payrolls together. There's a lot of things I could say in hindsight very critical. And

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certain things I think could have been done far differently. But again, at that point there was this mass panic, lots of things going on and I spent a lot of time in the written Dividend Cafe today.

In the interest of time, I'll try not to spend as much time right now in the podcast here in video, but. The Fed becomes a very significant actor here. Okay? They went to 0% interest rates. Right away they announced trillions of dollars of purchases of treasury bonds and mortgage backed securities, so they immediately went back to the 2008 playbook of Reflating, their balance sheet, as a means of trying to provide emergency liquidity in the financial system.

And I would say that there are three major takeaways that I believe we have to understand that I saw on full display from The Fed and about The Fed during this COVID moment. There was nothing controversial or questioned about them. Going back to the Bernanke 2008 playbook, when Bernanke did it, it was very controversial. There was pushback, there was discussion. There was a Fed governor by the name of Jerome Powell who pushed back on QE three. At this point, it was just unanimously assumed, not just from other Fed governors, but financial actors, policy makers, the media that a very aggressive and creative form of asset purchases were the lay of the land.

That's what The Fed was expected to do. That was very different from 2008. But I would also say number two, that the

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creativity of The Fed asset purchases defied the imagination. There is a section in the Federal Reserve Act called Section 13 three that allows for an unusual and exigent circumstances, The Fed to do certain things, their creativity.

In doing those things and coming up with other assets that they're able to buy that they're not really legally allowed to buy. But by a combination of using that provision and getting a small amount of an equity injected from. The treasury that then The Fed levered up with money that doesn't exist to come into high yield bonds, which we never did after 2008 into certain elements of other asset-backed securities, some of which we had done in oh eight, some of which were new into municipal bonds, short-term municipal securities, which we hadn't done in oh eight commercial paper, which we had done in oh eight to protect money markets.

So they borrowed a lot from the oh eight. Playbook, which was the talf, the term asset backed liquidity facility from March, 2009. They did a Talf 2.0 in March and April, 2020 and went to a whole nother level with it. That at that moment I learned their creativity, their ability to do whatever they want to affect policy objectives is far beyond what we can really comprehend.

I say that for good or for bad. Okay. It can be said as a criticism. There's an element to it, which I'm very critical of, but that's not my point. There's an element which people can say it's a good thing that The Fed took bold, audacious steps to

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avoid a bigger crisis. For my purposes right now, I'm just simply saying it descriptively.

Okay. Then the third point is that the default expectation of The Fed as an economic savior in financial markets in the broader economy. Now included, as I saw during the COVID moment, everyone. Okay. I think a lot of Main Street during financial crisis wonder what Congress was gonna do, what the president was gonna do, what the banks were gonna do, and The Fed was this huge actor out of it.

But I don't think it had really permeated the consciousness of American Main Street. I think the COVID moment, it was just everyone, politicians. Sure. Media, yes. Wall Street, yes. Money managers, but. Businesses and people on America wondering, what's The Fed gonna do here? And that to me was a big difference from March of 2009.

Now we were dealing with a broad based what's The Fed going to do? And that really reset a certain national expectation. This matters going forward in the sense that I do not understand for the life of me why anybody believes that given the right trauma to the system, the right financial emergency, that The Fed would not go back to more quantitative easing to more creative asset purchases.

I believe that is a given. And that we saw it out immediately in the COVID moment, that there was no sense of, okay, we did it in the financial crisis, but do we really wanna go back there? It

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was just a default position. I think it would be, again, I do, I believe they would do it differently to some degree.

I think that they view that there are some lessons learned. And I also don't believe. Their motives were wrong. I think they viewed this as what they needed to do. Financial markets expected it, and because financial markets were expecting it. There becomes this moral hazard. If you don't do it, you indicated we're here to do it Now by not being there a lot of things fall apart.

Main Street, Wall Street, whatever you wanna say. I am, I understand the man in the ring reality. They're there making very difficult decisions. And I'm not trying to be ideological or doctrinaire, but the only thing I'll say is trying to do. At that kind of violence, just magnitude. Trillions of dollars ended up being \$5 trillion of buying securities with money that didn't exist.

Going into junk bond markets and going into corporate sectors and asset-backed markets and not recognizing that there are trade-offs. That's where I'm most critical. I believe that there are trade-offs that are really important. That yes, they're attempting to plug a liquidity back. What? What their fundamental policy objective in this is, just so we're very clear.

Is trying to prevent a liquidity crisis from becoming a solvency crisis. That's more or less the best sentence to use to understand lender of last resort, central Bank, ethos 1 0 1 and getting very creative in the way it's done and all these

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additional tools they're using still come down to that basic idea and, in a different Dividend Cafe, a different forum. We could debate what they should do and shouldn't do, but I do believe that was the motive. And all I am suggesting is that not understanding trade-offs is where it has big implications to markets later. I ended up in the middle of this period. Being rather obsessive in my collection of data, the way it was impacting markets, what The Fed was doing, what policy makers were doing, what was happening on the health side of it.

I was talking to doctors, hospitals, scientists every single day, and I started just emailing out some of my findings to different clients and things day by day. And then we decided to incubate it around a web property, a digital asset we created called COVID in Markets. And that became a seven day a week practice through the entire deal.

And we kept that going all the way through spring and summer. Then by September, I honestly never wanted to hear the word COVID again, but it was a tremendous learning experience for me. A little bit outside of my comfort zone. I definitely learned more in the medical and science side than I ever wanted to learn, but even just the ability to collect information, the kind of investigative journalist side of things.

It was fun in a lot of ways. I got very tired of it. But cold calling hospitals in Texas and New Jersey and finding out what really was meant and not meant about surge capacity and ICU

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availability and other things. And I, I hope there was value that went to clients during that period, and even non-clients.

And we certainly picked up a lot of readers during that period. The, these things stick out. There's times where it feels like it was a year ago and other times it feels like it was, 25 years ago, not five, but that's all birthed at this five year anniversary. I wanna close though with, and it's five lessons that I learned from that experience in March.

Not the entirety of the COVID moment, but what. Took place in March of 2020 that I think matters to us now, first of all, and I alluded to this before, markets are discounting mechanisms, always pricing in today, what they believe about tomorrow. They can drop way quicker and more severely than you expect, and they can rebound way quicker than circumstances seem to warrant.

And that was not a new lesson to me in spring of 2020. It's the testimony of history. It took place out of the financial crisis. It's taken place outta most moments in history. Markets begin recovering sooner when you wait for the good news to be announced. Markets have already priced it in and then some.

And that is an incredibly important lesson for investors. Number two is that tough times don't last, but human nature does. And what I mean by this is that statements that would happen during shutdowns that no one was in a travel. Again,

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similar sentiment expressed after 9/11. That convention center activity would never come back.

That the court, the businesses learned they didn't need to meet face-to-face anymore. That there wouldn't be corporate events, there wouldn't be speaking events, that all conferences and seminars were gonna go virtual forever. That New York was dead. That New York restaurants would never be busy again.

The Las Vegas was over. Las Vegas is the most crowded it's ever been, ever by far. Now New York restaurants are the most crowded they've ever been by far. Now air travel is busier than it was pre COVID. Shopping malls right now have the highest occupancy at the highest per foot. Rent at least high end, that are plenty lower end ones that are decimated.

There is a lot of melodrama that happens and not just these examples I give that were more specific to the COVID moment. The critique I have was believing that we could extrapolate the uniqueness of what had happened there across the years and years to come. And that human nature somehow is gonna be so different as a result of those tough times.

The tough times didn't last and human nature did. When people are going down that path, is there an investment opportunity to short that kind of ail? It's called going long. Investing long in the right things as others are believing that those things are permanently changing. Number three, severe

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distress creates severe dislocations and creates serious opportunity.

But seizing that opportunity requires a contrarian impulse that very few people have. All I mean by this is to actually buy when there is the most blood in the street. Is nearly impossible to do for almost all people. Certain hedge funders have become billionaires doing it, and I'm not being funny when I say they're alm, they're psychopaths of human persona.

The, at the point where the pain is most severe, that the opportunity is most profound. You don't know that. And so to go act at that time feels. You're stepping in front of a train, and yet that's where the dislocation is most severe, and that's where the opportunity is most real, and you don't know it till later.

So all one can do in these severe dislocations is either ride them out or if they're trying to play offense during them. Accept a level of contrarianism that is deeply and profoundly, and for most people, impossibly uncomfortable. Number four. I love this one. Principles are not something you, excuse me.

Principles are something you bring to a crisis. Principles are something you bring to a crisis. They're not something you come up with during a crisis. So I could talk about this in the context of policy makers, politicians, central bankers, leaders, elected to fit whatever. I'm right now referring to investor behavior.

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There are disciplines, there are principles that you have that you bring in that drive your portfolio, that drive implementation, drive activity. And if you want to alter those things during a time of crisis and forfeit your principles, forfeit fortitude, that's a recipe for investing Disaster.

Finally, number five, the intensity of these moments is always in forever driven by the leverage reality of our financial system. Two things to remember. A, it's happening to others and will end. And B, it should not be happening to you. That forced selling dynamic is real and it hurts our asset prices as market to market investors.

It exacerbates the pain, violence, and magnitude of market trauma and market distress, and it is irrelevant. If you yourself are not a forced seller, it hurts. That guy doesn't hurt you unless you are that guy. The short term pain is coming as a result of spillover from the other guy. The permanent pain is only for the other guy as long as you don't become that guy by becoming a forced seller.

This is a profoundly important lesson because there is no chance in my lifetime or yours that our financial system will not have leverage in it. Now, there'll be varying degrees of how much leverage it'll be, more, it'll be less. Are we in a period of profound risk on that? There's greater leverage at the time of certain extrinsic event happens.

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That's unknowable. But my point is that these periods of forced selling is what we experienced in March, 2020. It did not do any permanent damage to anyone who wasn't a forced seller. That is something I cannot emphasize enough as a permanent lesson for us to hold dear. I don't know if we're going through another moment exactly like that. I would pray we wouldn't, we generally don't. History often rhymes but doesn't exactly repeat. There's social, political and other, historical components of this that may or may not happen, and yet the part I'm positive will happen again. Is another market experience, another severe drop, another traumatic event, what exactly catalyzes it's unknowable when it happens is unknowable. But anybody invested in risk assets right now with things humming along and you think it's been, difficult for some equity investors with tariffs or whatever, but, you look at the returns that have been created over the last few years, over the last 15 years, over, 30, 40 so many good things for so many risk investors.

It's good what happened in March of 2020 can happen anytime and it will happen again. And I pray that the lessons I've talked about today will be held onto by more people I know they will be held onto by me and my team. I want our clients to always know that we end to, that we work to that end of maintaining these disciplines, these principles.

But there is no scenario by which traumatic events and distress events on this side of gory go away. And that was a real bad one. And in a lot of ways compounded with other social and cultural and medical things happening that made it especially

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intense and difficult experience. But from investment standpoint it didn't last very long and it wasn't fatal.

And that's a byproduct of the way markets work, what we're actually doing in constructing a proper portfolio. The discipline's necessary, the principles necessary, the activity necessary to see it all the way through to a positive conclusion. So I don't wanna say happy anniversary 'cause there was nothing happy about what we experienced five years ago, but it's memorable and I hope this little trip down that memorable lane has been beneficial for you.

Thanks for listening. Thank you for watching. And thank you for reading the Dividend Cafe. I'll see you on Monday.