

Investing During the COVID-19 Pandemic - The Details Behind a \$385,000 Capital Deployment

It is crazy to think it was only a few short months ago that the stock market (as measured by the S&P 500) was making new all-time highs. How far it feels like we are from that right now...

Were you ready? Was anyone? But how do you plan and prepare for a pandemic? I don't know if you can, at least not directly. I do believe that **financial prudence** is always the right path pandemic or not, which I define as spending less than you make, keeping low to no leverage, investing part of your savings (with a margin of safety), and saving the rest for a rainy day (or a really bad storm...otherwise known as a pandemic). Then again, maybe I'm biased because that is what I've been doing for the last five years.

I never imagined a reality where the entire ~~country~~ world was on lockdown. I've expected another financial crisis but not like this. It still doesn't feel like real life. That said, financially, the GYFG household is in good shape. Through a combination of financial prudence and a little lucky timing, we entered this pandemic with a paid-off house, just 2% of our net worth exposed to the stock market and a boat-load of cash ([~50% of our net worth at February 28, 2020](#)).

We were in an ideal position to deploy capital and we did. In March of 2020 we deployed \$550,824 in a mix of stock and real estate investments. I should note that we have yet to see how this Pandemic will impact the real estate market but I feel confident it will. Let's lay the groundwork by reviewing the crazy we have witnessed this year.

In a short period of time we have witnessed the following:

(1) The S&P 500 had its fastest market correction in history, losing 36% from peak to trough in 23 trading sessions. It was crazy watching the volatility that unfolded during this selloff. Even more impressive has been the bounce to retrace a good chunk of the losses. The scary part is that it's clear we haven't even seen all the

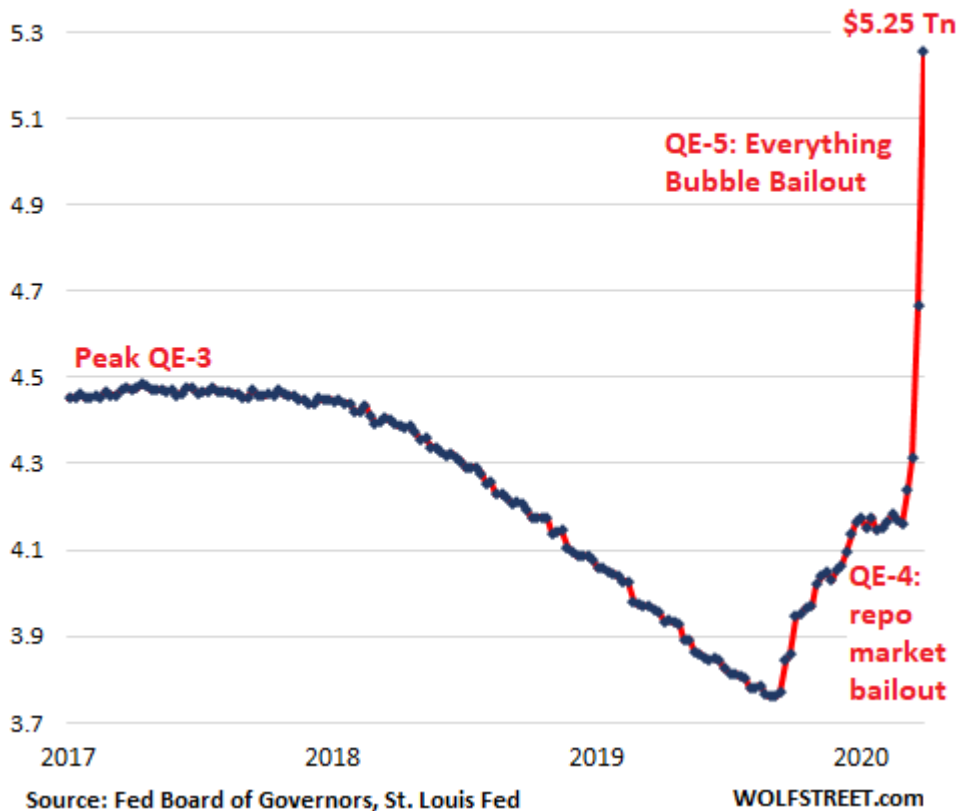
damage this shut down has or will cause. Is this a dead cat bounce?



(2) The Fed launched every weapon at its disposal by dropping rates to zero and putting no limit on asset purchases to save the American Economy. You have to wonder if rates will go negative in the US as they have in other countries around the globe. Some are expecting the US balance sheet to balloon to \$10T – we have already surpassed levels last seen during the Great Financial Crisis of 2008/2009. This means those printing presses are running hot!!!

Total Assets on the Fed's Balance Sheet

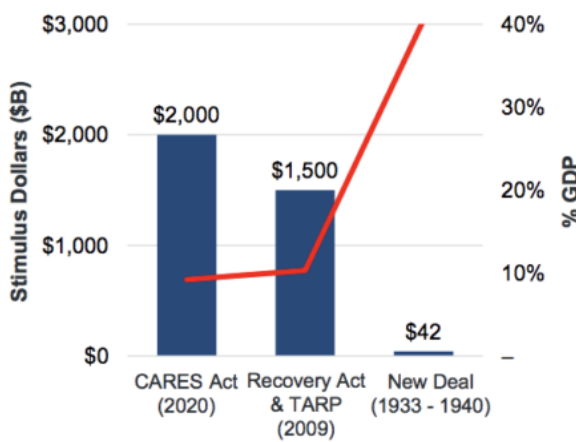
Trillion \$, week ending Wednesday



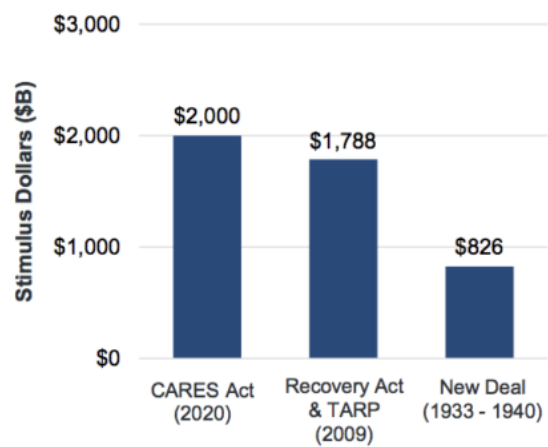
(3) The Government announced a \$2 Trillion stimulus package to try and prop up the economy while also taking drastic measures to fight the COVID-19 Virus. The largest (and fastest) bailout in history! I have even read some pieces that compare this to the size of the New Deal back during the Depression era but even after you adjust for inflation it doesn't even come close - the New Deal in today's dollars was only \$826B (\$42B in 1933 dollars). However, in terms of % of GDP it is significantly less than the New Deal.

USA CARES Act (2020) = Largest & Fastest Stimulus Package Ever

Historical USA Stimulus Bills (\$B)
Nominal Dollars



Historical USA Stimulus Bills (\$B)
Inflation Adjusted Dollars



Months to Implement 1 st Stimulus Package From Stock Market Peak	1	10	42

■ Stimulus Dollars (\$B) — % of GDP

BOND

Source: St. Louis FRED. 2009 – 2020 assumes 1.77% annual inflation. 1933 – 2020 assumes 3.52% annual inflation based on CPI.

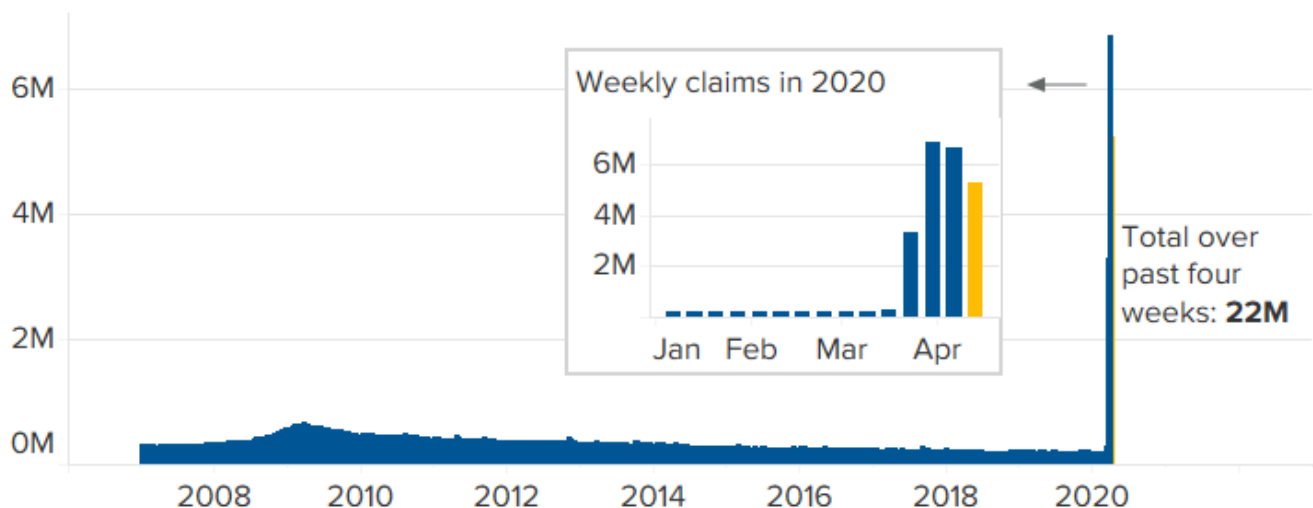
(4) **Oil not only went to ZERO, it traded below zero to -40.32!** They weren't just giving it away, they were paying you to take it. I didn't think this was possible. And this comes after OPEC made a historic production cut of 9M+ barrels a day.



(5) The weekly jobless claims have been staggering with 22,000,000 jobs lost in the four weeks ending April 16th, 2020. The sad reality is that there is likely still more to come. Some economists are projecting the unemployment rate to hit 25% or higher.

Initial claims continue record-setting pace

Weekly initial unemployment insurance claims



SOURCE: Department of Labor. Data is seasonally adjusted.



Needless to say, it is a crazy time to be an investor. It has been difficult but I have been trying to remind myself to heed Warren Buffett's advice to [be greedy when others are fearful](#). I'll be honest that it is a lot easier said than done (dang human emotion). You wouldn't have noticed my hesitation to put money to work if I didn't say anything because I did deploy 30% of our net worth in a two week period (please know it wasn't easy emotionally but emotions have no place in investing). Of the \$550,824 that I deployed in March, \$144,549 went into stocks, \$21,175 went into [Rich Uncles NNN REIT](#), \$100 went to a high yield savings account, and the remaining \$385,000 was deployed in a real estate loan where the interest is paid in kind (PIK).

The Loan Specifics

I did get a comment from a blog reader that warned me to be careful with the PIK loan I mentioned in my last post, which makes sense because I didn't give much color or context behind the loan. First, I should mention that this loan was given to my in-laws. They are getting older and starting to look forward to retirement. They have a large portion of their personal net worth tied up in their house. On top of this, the house is far too big for just two people - it's 5,000+ square feet. Mrs. GYFG's dad built the house 30 years ago and it is absolutely gorgeous. It's smack

dab in the middle of southern California wine country with stunning views of the valley. He would love to keep the house in the family.

As they get closer to retirement they were contemplating downsizing in order to fund their retirement by selling the big house. Mrs. GYFG and I are very fond of the house, the location, and the memories we have built there over the years. We would hate to see the house not stay in the family. We have also always thought we would upgrade one more time to our forever home. The funny thing is the family house checks all the boxes for what we were looking for in our forever home (besides some updating and renovations to make it our own). Our brains started churning as we thought about eventually buying the house from her parents one day.

Then, as fate would have it, the in-laws tried to refinance their loan and had trouble getting approved for reasons I don't need to get into here. They are totally creditworthy people but sometimes when you are in business for yourself the lending process doesn't make any sense. Let's just say they have never missed a payment and the current loan has been in place for 10 years. This new loan would have significantly lowered their monthly payment...and their income is higher than where it was ten years ago. Still problematic. Because of all this, we started to play with the idea of providing them the loan as a step towards our eventual goal to live in the house.

There were really five things we were trying to optimize for in extending this loan:

- (1) Help the in-laws with some retirement planning by significantly reducing their cash outflow. That is why this is a PIK loan, meaning there is no exchange of money. The interest just accumulates on the back end of the loan. Think of it as a reverse mortgage but without all the fees.

- (2) We wanted to find a way to keep the house in the family. We had previously discussed our desire to potentially move into the "big house" one day when they were ready to downsize. They were very open and excited at the idea of this. Conveniently, there is a "small house" on the property that they can downsize into.

- (3) We wanted a way to tiptoe into this big house as we are still 3-5 years out before we are ready to make the full leap. This allows us to essentially deploy a down payment that earns interest - at 4%. We plan to convert the loan and

accumulated interest to an equity position in the next 3-5 years. In the meantime, our loan helps the in-laws have a much lower nut in terms of monthly expenses.

(4) My in-laws are determined to leave an inheritance to both of their kids - my wife and her sibling. This arrangement allows them to continue to hold onto a significant ownership percentage in their house that will continue to appreciate over the coming decades. Although we plan to continue buying their equity from them over time, we believe this property that is worth \$1.7M today (confirmed by appraisal), will be worth significantly more in the decades to come. This just means as equity partner there will be plenty of upside for everyone should we decide to eventually sell the property.

(5) We also wanted to be sure that our in-laws always had a place to live, which is why the small house on the property is so convenient.

In response to that reader's comment, I think with this context it is a lot less risky than it may appear. Especially if you consider that the LTV of the property is 23.5%, without our loan that will be converted to an equity position once we move into the house. Our plan is to pay off the existing loan on the property when we move in, at which point we will lock in a certain percentage ownership based on the market value of the property at that time.

I like this deal because it feels like everyone wins!

Your turn! *Would you ever consider entering into such an arrangement with your in-laws? What would you have done differently?*

- Gen Y Finance Guy



Gen Y Finance Guy

Hey, I'm Dom - the man behind the cartoon. You'll notice that I sign off as "Gen Y

Finance Guy" on all my posts, due to the fact that I write this blog anonymously (at least for now). I like to think of myself as the *Chief Freedom Officer* here of my little corner of the internet. In the real world, I'm a 30-something former C-Suite executive turned entrepreneur turned capital allocator. I am trying to humanize finance by sharing my own journey to Financial Freedom. I believe in total *honesty* and *transparency*. That is why before I ever started blogging, I decided that I would share all of my own [financial stats](#). I do this not to brag, but instead to inspire motivate, and also to hold myself accountable. My goal is to be a beacon of hope, motivation, and inspiration for *you*, the reader, by living life by example and sharing it **all** here on the blog. My sincere hope is that you will be able to learn from me - both from my successes and my failures! [Read More](#)