Times Like These: Coronavirus Update

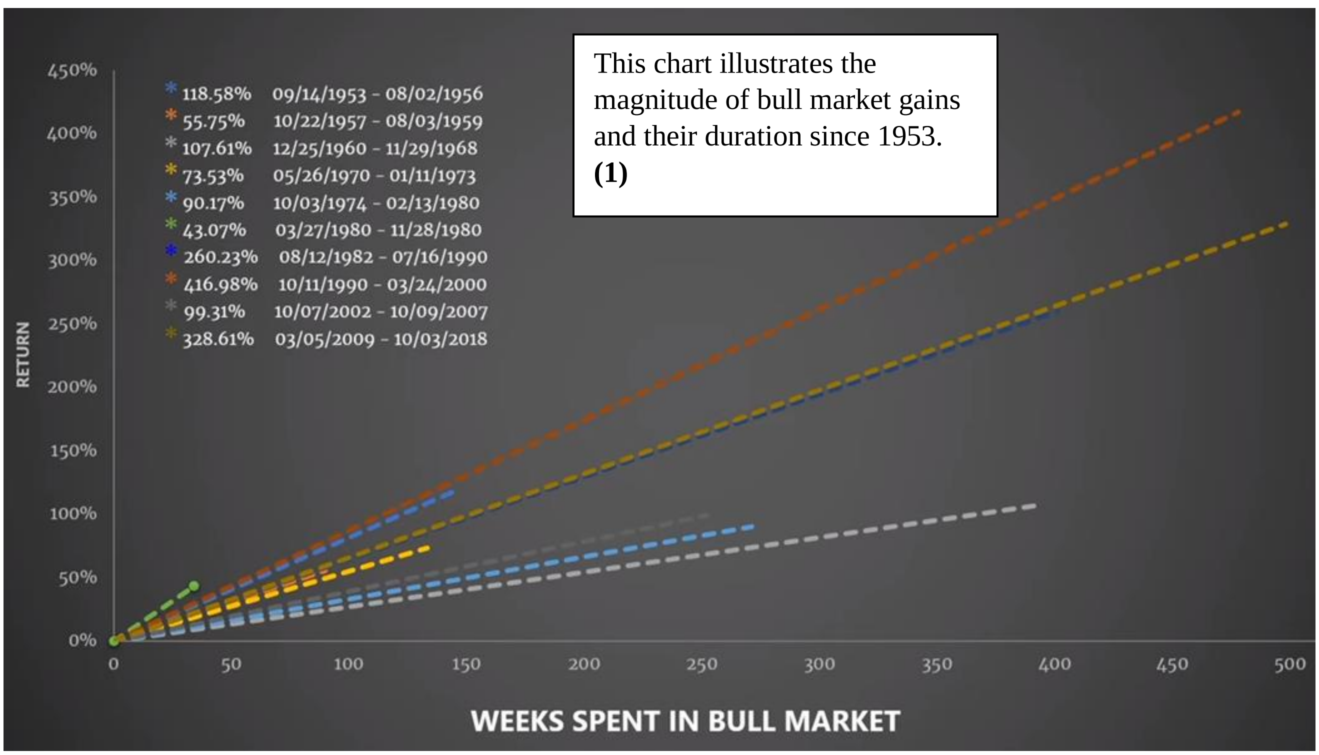
Recently, I was on the 7th floor, stepped into an empty elevator that I assumed was going up. I stepped in and pushed the button for floor number 10 and watched the doors close. To my surprise, the elevator started going down! As I looked at the dashboard, I noticed the L was lit up, the elevator was going down before it would go to the floor I wanted to reach. The elevator stopped at the 5th floor, and a woman entered. She pushed button 7, the floor I just came from! She exited, and then I ultimately reached my destination on the 10th floor, not the way I envisioned it happening, but nonetheless I made it.

I'm sure by now you can see how this experience relates to finance. Over the last week we have been in a very volatile stretch. We hit an all-time high for the Dow and S&P 500 in mid-January, only to see the month end negatively. That was followed by a new high in February, only to see a bigger drop in both the US and international markets. If we are focusing on the short-term, this past week or month could give us a lot of heartburn, like the elevator taking me to the wrong floor. It is times like these that the long-term view is the one we need to remain focused on. As I felt the elevator taking me down, I could have hit any other number to hurry, get off and jump on a new elevator. Nevertheless, who knows how long that would have taken, or if the other elevators were even working, maybe I would have had to use the stairs which would be much longer. Ultimately, I knew where the elevator was going to take me, even though it was going down before it went up, and in the end, I was okay with that.

You have heard the old saying, "Sell on the rumor, buy on the news", historically, markets tend to overreact to rumors and events that make the news. When the Coronavirus began, economists almost immediately slashed China's GDP from 6% per year to 5.5% per year, but as cases have spread and fear has begun to slow spending and economic activity, now, selling has intensified and fear has swept through the markets, we are seeing quite a bit of red all over the TV.

The million-dollar question is, "What should we do now?"

With the virus spreading to Italy, Iran, Korea, the US and other countries, the market once again has reacted negatively. Only the future will show if this sell off is an over or under reaction, but history normally tends to favor the adage above. I think it is likely that Wall Street will extrapolate the worst-case outcome and most of the time, the results fall somewhere in the middle. Remember FEAR is a much more intense emotion than GREED and tends to cause more action. Investors are worried that the virus won't be contained, and that worldwide GDP will be severely hindered. The fears are valid, the US market and overseas markets have dropped over 12% in a week, and investors are asking themselves if they should ride it out? The question I have asked is, will this temporary decline affect your retirement income in 10-20 years?



In our quarterly email in January, we wrote that we felt investors should analyze their current allocation and make sure it fits their long-term risk tolerance. Here is an excerpt from that email:

> *"A common lesson we can pull from history, is that nothing can last forever. With global growth slowing, political uncertainty brewing, and more tension likely to surface with the trade war, I think all investors need to be comfortable with their defensive resources available in their financial plan, should a reason surface that warrants turning to it."*

Though we didn't anticipate Coronavirus to be the reason for the pullback, we felt we should be prepared for one. In almost all our portfolios we keep Fixed Income around to hedge against and protect our equities. Most years, the defensive portion of the portfolio causes returns to be lower than the major indexes you see on TV, however in uncertain times like today, defense becomes the hero, rising several percent as equity markets fall. Fixed Income is the least costly form of portfolio protection, and as soon as selling seems to bottom out and major indexes approach a 20% decline, we will rebalance (buying into areas that have declined the most.).

(1)

For opportunistic investors that would like to use this news to increase equity positions by about 10% we will also be evaluating those trades. According to Warren Buffet in 15-20 years when you look back this event will be an attractive buying opportunity making good businesses cheaper. See the opportunity in today's pessimism. If you would like to reassess your current investment policy, please give us a call or e-mail and we will be happy to go over this with you.

We continue to urge clients to have patience, stick to your plan, and don't act too hastily. If you have questions or concerns give us a call. Matt, Stephen, and I are always are ready and willing to talk. Just know that we have prepared for times like these, and no matter the name SARS, Swine flu, or Coronavirus, diversification is our friend. Your portfolios are prudently built to deliver returns that will make your plan a success. Our Fixed Income will do its job of protecting your equities and cash flow. Stay on the elevator, because if we take the long view, it will take us higher, usually much quicker than if we try switching elevators. Have a wonderful weekend and please contact us with any questions!

- Mike Mills CFP®, CLU®, CFS

Sources: **(1)** The Truth About the Coronavirus and Your Finances