MARCH 9, 2020

STAYING CALM IN A MARKET TUMBLE—CORONAVIRUS UPDATE

Today marks the eleventh anniversary of the height of panic around the global financial crisis of 2008. On March 9, 2009, markets hit the lows of the financial crisis with the Standard and Poor's 500 Index bottoming out at 666. It is only ironic that markets have celebrated this anniversary of panic with a global panic attack surrounding the coronavirus.

As the coronavirus, and now a "price war" in oil markets, grip headlines we want to follow up on our earlier letter of February 27th and acknowledge the power of emotions, put current events in historical perspective, and remind clients of their long-term plans.

In our earlier letter, we said that while the long-term effects of the coronavirus were still unknown, investors should expect that in the short-term volatility will be heightened (in both directions) and that governments and central banks will likely step in to take measures to help prevent financial difficulties from spreading throughout the economy. Since that market update, we have seen the market experience large swings, both up and down, and the Federal Reserve has stepped in with a surprise rate cut of 50-basis points (March 3rd) and the New York Federal Reserve Bank announced today that they will increase daily injections of cash into the financial markets by $50 billion to $150 billion per day.

Whether it is us as your financial advisors, you as our clients and investors, the traders on Wall Street driving markets, or the teams of professionals along with us who are managing the strategies within portfolios, at the end of the day—we are all emotional beings. What markets (and us as emotional beings) hate is uncertainty, and right now there is a lot of uncertainty over the spread and economic impact of the coronavirus. While we all collectively have no control over the uncertainties around the virus and its impact, we have full control over how we respond to it. Mark Twain said that "history doesn't repeat itself, but it often rhymes." And if history rhymes, history would suggest that our response should be more about not having a response.

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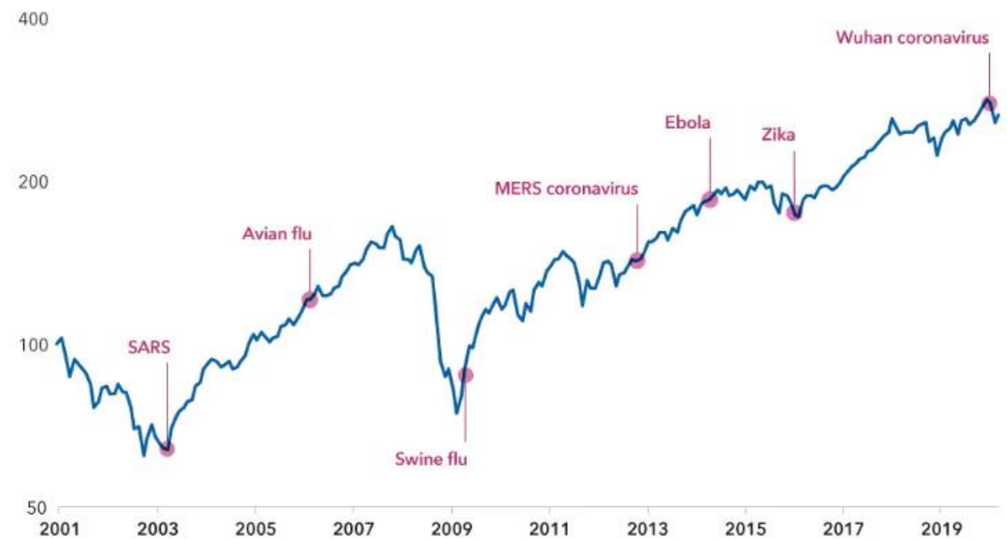
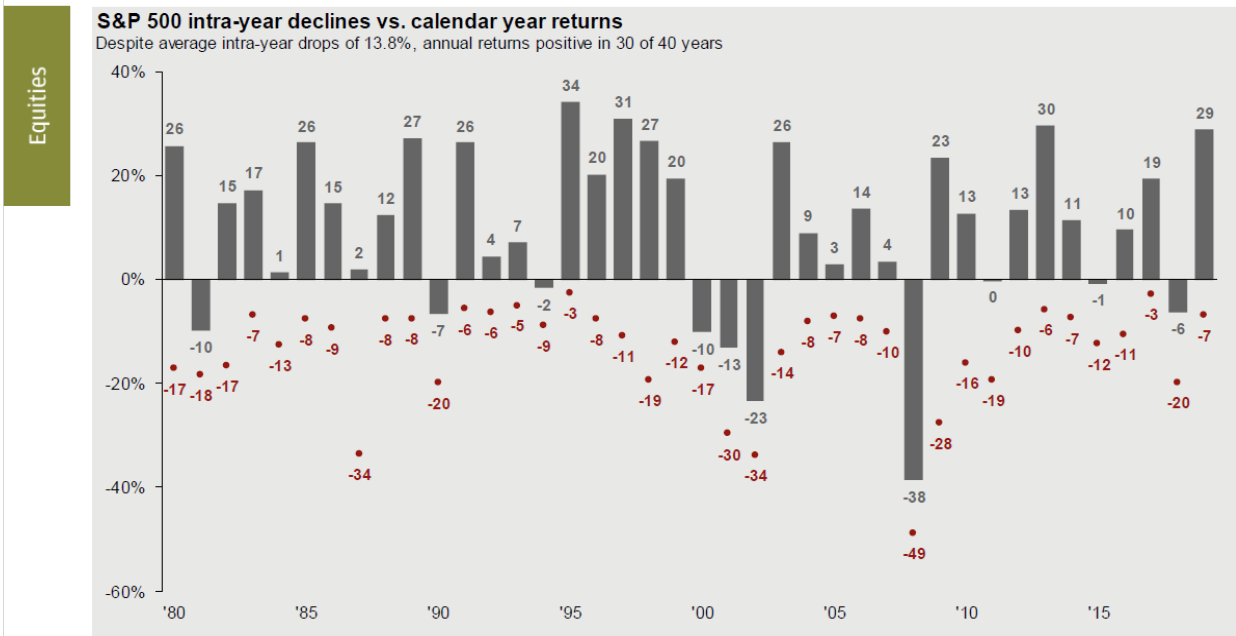
Keeping a long-term perspective is one of the most important things that investors can do, especially when markets are volatile, and emotions are high. History shows that in general while markets in the short-term are very reactionary to news and events, they have tended to reward the patient investors over longer periods of time. In fact, global markets have experienced, and shrugged off, viral outbreaks many times before.

Since 1981, there have been a dozen major viral outbreaks. In only two of these instances was the Standard and Poor's 500 Index negative in the following twelve months; and in both instances there were economic conditions working against the market outside of a viral outbreak (a recession during the 1981 AIDS outbreak and a collapse in commodity prices putting pressure on the energy sector during the 2014-2015 Measles outbreak).



Remember, the average intra-year decline for markets over the last 40 years is 13.8%. **This means that on average, at some point in time during the calendar year, markets are down 13.8%.**



After a 30% return for markets in 2019, and relatively little volatility in recent years, we all need to keep a market correction in perspective. While market corrections may be unsettling, they don't last forever.

Market downturns happen frequently but don't last forever

Standard & Poor's 500 Composite Index (1950-2019)

Size of decline	-5% or more	-10% or more	-15% or more	-20% or more
Average frequency*	About three times per year	About once per year	About once every four years	About once every six years
Average length†	43 days	112 days	262 days	401 days
Last occurrence	August 2019	December 2018	December 2018	December 2018

* Assumes 50% recovery of lost value.
† Measures market high to market low.

Sources: Capital Group, Standard & Poor's.

While we do not discount the potential risks of coronavirus, nor do we discount the concerns of the American people, especially those caring for the elderly, the young, or otherwise immunosuppressed, what we do know is that as the coronavirus gripped headlines, market action and human behavior to date has been largely emotional and based on fear. We are fortunate to have access to some of the most experienced professionals in many industries. While there are a lot of unknowns surrounding the coronavirus, our understanding based upon research and discussions with industry professionals is that it is highly likely that the coronavirus will spread further, will likely be less common than the flu, albeit more severe for at-risk groups such as the young and elderly. As Americans cling to hand sanitizer, bleach, and face masks, we hope that less panic and more common-sense practice of good hygiene beyond a normal gold and flu season takes hold.

Portfolios are constructed based on investors' goals, risk tolerance, objectives, and long-term financial plan. **Investors should not make substantive changes to their overall financial plan in response to short-term market conditions.** With that being said, we continue to monitor the coronavirus situation and market conditions. At this time, we believe that this virus will spread further, and market volatility will remain elevated. We do anticipate some downward revisions to economic expectations due to the coronavirus, however we do not see a reason for concern for the long-term investor. For long-term investors, especially those looking for entry points with additional investments, we are reminded of Warren Buffet's sound advice: ***be fearful when others are greedy and greedy when others are fearful***. We continue to monitor the markets and economy, are available to speak with our clients and friends regarding their financial plans and where and when appropriate will rebalance and derisk for clients as conditions warrant.

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Data sources:

4 Ways to Stay Calm when Markets Stumble, March 5, 2020, Capital Group

JPMorgan, *Guide to the Markets*, 12/31/2019

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