

# Portfolio Management, LLC

*Building Wealth Wisely*

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## Recession and Recovery

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The novel coronavirus has captured everyone's attention, starting out as a mysterious new virus contained within China and then spreading into a global pandemic. Last month its far-reaching implications jolted markets. We saw dramatic swings in most risk assets as investors anticipated hardship and an economic slump.

The recent decline was the fastest we've ever moved from a market top to a bear market. Last month's downturn ended the longest bull market in history; the longest economic expansion on record also came to an end.

The virus has turned into both a humanitarian and financial challenge. Covid-19 has had a meaningful impact on lives and commerce around the world. It has disrupted markets, communities, businesses, and the daily lives of individuals and families.

We expect social distancing and shelter-in-place policies to cause consumer spending to decline at the sharpest pace since WWII and trigger a significant spike in unemployment. Millions of Americans have already lost their jobs.

Going forward, a large number of industries, including airlines, lodging, retailers and energy will need government help to survive. Until the virus has been contained, it will be impossible to quantify the full economic impact of this crisis.

If the virus loses steam – or a vaccine is developed sooner rather than later – the economic rebound could be swift and robust. However, if nations around the world undergo rolling periods of outbreaks and quarantines, it will take longer for a recovery to begin. We anticipate the situation will get worse before it gets better.

Fortunately, we don't expect the damage to the economy to be permanent. When the coronavirus comes under control and consumer spending revives, most of our schools, offices, factories, airplanes, restaurants, cruise ships, and sports stadiums will still be here.

In over 35 years of managing money, we have seen a lot of financial challenges, including Black Monday in 1987, the savings and loan scandal, the bursting of the dot-

com bubble, 9/11, and the global financial crisis of 2008-2009. Every decade has brought us at least one major test. The current calamity still feels more like an event-driven bear market rather than a cyclical bear market, which gives us hope for a strong recovery after the threat passes.

All of the past shocks have taught us the importance of patience and discipline, which rewards long-term investors once turmoil subsides. The circumstances might be different this time around, but we know from history that our country perseveres and our markets rebound. While dealing with the virus certainly represents a formidable and unique challenge, there is nothing new or unusual about market declines.

Here is a chart of all of the bear markets since World War II (defined as a decline in the S&P 500 Index of 20% or more). This illustration includes the current bear market, which is average in depth at this point.

#### BEAR MARKETS - Post World War II

Starting Date	Ending Date	# of Months	Starting Index*	Ending Index*	Decline
05/29/46	06/13/49	37	19.25	13.55	-30%
08/02/56	10/22/57	14	49.74	38.98	-22%
12/12/61	06/26/62	6	72.64	52.32	-28%
02/09/66	10/07/66	8	94.06	73.20	-22%
11/29/68	11/26/70	18	108.37	69.29	-36%
01/11/73	10/03/74	21	120.24	62.28	-48%
11/28/80	08/12/82	21	140.52	102.42	-27%
08/25/87	12/04/87	3	336.77	223.92	-34%
03/24/00	10/09/02	18	1,527.46	776.76	-49%
10/09/07	03/09/09	14	1,565.15	676.53	-57%
02/19/20	03/23/20	?	3,386.15	2,237.40	-34%
<b>Average</b>		<b>16</b>			<b>-35%</b>

We know it's not easy to stick to your guns when the market plunges, especially when it falls as far and as quickly as it has over the last six weeks. But what investors do now plays a crucial role in meeting their financial goals over the long term.

Experienced investors recognize downturns present opportunities. Moreover, stocks typically rally well before a recession is over. A sizable share of a new bull market's gain is generated in its early stages when people are most fearful. If we wait for good news, stocks will already be up in price.

Here is a chart showing all of the bull markets that followed the previous bear markets.

**BULL MARKETS - Post World War II**

<u>Starting Date</u>	<u>Ending Date</u>	<u># of Months</u>	<u>Starting Index*</u>	<u>Ending Index*</u>	<u>Gain</u>
06/13/49	08/02/56	86	13.55	49.74	267%
10/22/57	12/12/61	50	38.98	72.64	86%
06/26/62	02/09/66	44	52.32	94.06	80%
10/07/66	11/29/68	25	73.20	108.37	48%
05/26/70	01/11/73	32	69.29	120.24	74%
10/03/74	11/28/80	75	62.28	140.52	126%
08/12/82	08/25/87	61	102.42	336.77	229%
12/04/87	03/24/00	150	223.92	1,527.46	582%
10/09/02	10/09/07	60	776.76	1,565.15	101%
03/09/09	02/19/20	129	676.53	3,386.15	401%
<b>Average</b>		<b>71</b>			<b>199%</b>

Although past performance is not a guarantee of future results, our nation has never failed to recover from a bear market. As the chart above indicates, the magnitude of each recovery has rewarded investors who stayed the course.

Given current circumstances, here is what we are doing on behalf of clients:

- Keeping adequate cash balances for anticipated withdrawals
- Rebalancing portfolios as needed
- Maintaining a modest underweight allocation to equities
- Suggesting the suspension of RMDs for some clients
- Recommending Roth conversions for some clients
- Working in the best interests of all clients at all times

We live in a changing world, but sound principles of investing never change: identifying the right asset mix, diversifying accounts appropriately, rebalancing as needed, and avoiding emotional decision-making. At our firm, our values also don't change. We remain committed to serving our clients with honesty, integrity, accessibility and care.

We hope you and your loved ones stay safe and healthy.