

Portfolio Management, LLC

Building Wealth Wisely

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Fear Itself

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As our firm reviews the facts and figures about the Novel Coronavirus and its economic impact, we are reminded of President Franklin D. Roosevelt's declaration, "the only thing we have to fear is fear itself."

To be sure, the current coronavirus is a serious threat. It is quickly spreading around the world and might become a pandemic. This strain of virus can be contagious for some period without an infected individual displaying any outward signs of the illness. It is expected that more people will be infected and more people will die. Global economies will come under pressure, with some perhaps falling into recession.

However, as the media hypes fears about Covid-19, it might help to take a look at the current news from a larger perspective. Influenza infects upward of 29 million people in our country every year. The Center for Disease Control estimates that, on average, 56,000 people die from the flu or flu-like illness each year. Yet less than half of us bother to get a flu vaccine. Even fewer of us wash our hands frequently or take other precautions on regular basis during flu season.

Is there really a need for panic? As of today, only two people in our country have died of Covid-19. The number of new cases in China is reported to already be dropping. The vast majority of cases result in mild or no symptoms. The novel coronavirus appears to be less deadly than the SARS, MERS, and H1N1 virus outbreaks. Very few children have been affected during the current epidemic. Elderly people with existing medical conditions seem to be the most at risk.

Covid-19 will definitely have a meaningful impact on lives and commerce around the world, so anxiety and turmoil are understandable. Confronted by the daily barrage of news headlines, many feel like the sky is falling.

There are still a lot of unanswered questions – and the more people panic, the worse the negative impacts will be on commerce. If governments around the world order schools and factories to be closed, the downward pressure on the global economy will increase. Until there is confirmation that the virus has been contained, it will be impossible to quantify the full economic impact.

From a business perspective, a supply shock is becoming a demand shock. Goods and services are being negatively affected. Travel is down. Manufacturing has slowed, and supply chains have been disrupted. Commodity prices have slumped, and consumer spending has slowed.

Anticipating the negative economic consequences, the U.S. stock market recently posted its steepest weekly decline since October 2008. More volatility is likely around the corner as investors react to new reports and try to gauge the depth and timing of the economic impact of the coronavirus.

However, chances are high that the storm will pass. With previous global virus outbreaks, financial markets have tended to recover quickly after health fears peaked. In the end, the novel coronavirus could become one of the many respiratory viruses that travel around the world like influenza and the common cold.

We do not mean to dismiss the current impact of Covid-19. Stocks usually don't fall 11.5% in one week without a cause. Financial markets can certainly get worse before they get better, but smart investors keep their eye on the long-term prize. Overreacting to sharp financial market gyrations is not a sound investment strategy.

As our firm reviews all client portfolios in the coming weeks and months, we will be making any necessary moves to continue to meet the current needs, the long-term goals, and the target asset mixes of each client. Most of our client portfolios were already allocated somewhat more conservatively than last year, and the gains in our bond positions have served to help buffer the recent declines.

We believe cooler heads will eventually prevail and fears will subside. Economic activity will rebound, perhaps surprisingly, as spending that was either delayed or deferred resumes, production recovers, and inventories are restocked.

Although past performance is no guarantee of future results, if history is any guide financial markets will recover – just as they have after every previous pandemic scare, as well as after the many wars, impeachments, recessions, assassinations, and other calamitous events that have occurred in the past.

Humans are resilient and motivated creatures. No matter what the circumstances, most people will work hard to put food on the table, a roof over their heads, and make the future better for themselves and their families. Warren Buffett, one of the smartest investors of all time, recently observed the coronavirus has not changed the long-term outlook in any meaningful way.

If you have a question or concern about your portfolio – or you need to report a change in your needs, circumstances, or risk tolerance – we welcome your call or email.

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