Economic Update and Making Emotionally Charged Investment Decisions

By Daniel Guillen
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March 2020 has provided some of the most volatile market movements we've seen since the Great Recession in 2008, including single day drops compared to Black Monday (1987) and market rallies not see since 1933. Still, we continue to face unprecedented challenges as we receive further confirmations that the economy has entered a recessionary period.

The biggest culprit- "a pandemic of respiratory disease spreading from person-to-person caused by a novel (new) coronavirus. The disease has been named "coronavirus disease 2019" (abbreviated "COVID-19")". https://www.cdc.gov/coronavirus/2019-ncov/cases-updates/summary.html

Though we may have preferred a slightly quicker response, we do see activity dramatically ramping up at an impressive rate to fight this global outbreak.

The World Health Organization (WHO), which described the coronavirus pandemic as the "defining global health crisis of our time", has urged countries to test all suspected cases of COVID-19. "We have a simple message to all countries - test, test, test," WHO Director-General Tedros Adhanom Ghebreyesus told a news conference in Geneva on Monday.

How have countries responded? In many countries in Europe, Asia and the Middle East have banned travel, closed borders and have placed certain cities on lockdown.

In the US, the administration graduated from initially placing travel restrictions and urging people to avoid large gatherings to ultimately closing all but essential businesses and ordering people to stay home in an effort to contain the spread of the coronavirus.

https://www.weforum.org/agenda/2020/02/coronavirus-spread-virus-disease-countries-epidemic/

According to the Wikipedia, as of April 6th, there are more than 1,273,990 confirmed cases of COVID-19 across the globe with 69,444 deaths and 260,247 recoveries. In the U.S. the number of confirmed cases has reached 337,309 with 9,643 deaths and 17,528 recoveries. https://en.wikipedia.org/wiki/2019%E2%80%9320_coronavirus_pandemic_by_country_and_territory

What is the function of the Federal Reserve and how has The Fed responded to the coronavirus pandemic?

The Federal Reserve System is the central bank of the United States. It performs five general functions to promote the effective operation of the U.S. economy and, more generally, the public interest. The Federal Reserve:

- conducts the nation's monetary policy to promote maximum employment, stable prices, and moderate long-term interest rates in the U.S. economy;
- promotes the stability of the financial system and seeks to minimize and contain systemic risks through active monitoring and engagement in the U.S. and abroad;
- promotes the safety and soundness of individual financial institutions and monitors their impact on the financial system as a whole;
- fosters payment and settlement system safety and efficiency through services to the banking industry and the U.S. government that facilitate U.S.-dollar transactions and payments; and
- promotes consumer protection and community development through consumer-focused supervision and examination, research and analysis of emerging consumer issues and trends, community economic development activities, and the administration of consumer laws and regulations.

https://www.federalreserve.gov/aboutthefed/files/pf_1.pdf

What has the Fed done to help combat the economic impact of the Coronavirus?

According to a paper by the American Action Forum, "As financial markets reel in response to the unique threat posed by COVID-19, Chairman of the Federal Reserve Jerome Powell noted in a surprise press briefing on Sunday, March 15, "The effects of the coronavirus will weigh on economic activity in the near term and pose risks to the economic outlook." The Federal Reserve (the Fed) took the opportunity to embark on a slew of emergency actions, most notably slashing its key interest rate to 0 percent and launching an ambitious round of quantitative easing (QE).

Read more: https://www.americanactionforum.org/insight/timeline-the-federal-reserve-responds-to-the-threat-of-coronavirus/#ixzz6HfqhBecZ

"I've never seen a more rapid Fed response, and they're giving it their absolute all. They've thrown everything they possibly can into responding quickly. And we are seeing bipartisan cooperation in Congress to quickly get out a package that is very meaningful." Ex-Fed Chief Janet Yellen told a video conference hosted by the Brookings Institution on Monday. https://www.cnsnews.com/article/national/susan-jones/ex-fed-chief-janet-yellen-impossible-know-point-how-deep-recession

Though these actions have been quite massive, it's still too early in my opinion to tell what the immediate economic impact will be. Actually, no one can say, with all certainty, they fully grasp the implications since the combination of events has been unprecedented. Ex-Fed Chief Janet Yellen added, “And it's sure to get worse before it gets better” …”Frankly,” she said, “it's impossible to know at this point how deep the recession will be. It depends critically on long the period of social distancing lasts. The hope is that lockdown can be lifted in May, and activity will begin to normalize in the early summer.”

That said, though the circumstances surrounding COVID 19 are new, recessions and their usual bear market counterparts are certainly not. They are very common. In fact, according to the National Bureau of Economic Research and Fidelity there have been 11 recessions since 1945 and 16 Bear Markets in around the same time period. “Bear markets are commonly defined as a decline of at least 20% from the market's high point (peak) to the low during the selloff. Using the S&P 500 as representative of the market, this has happened 16 times since 1926, an average of about once every 6 years. When a bear market does happen, it tends to be fairly dramatic, with an average loss of almost 40%. And it tends to take a while to recover those losses—the average duration is 22 months.

The good news is that in every case (the economy has healed), markets have come back and often have made sizable gains in the months immediately following the downturn. The past is no guarantee of future results, but historically even the worst markets have been temporary dips in a general march higher for stocks (see the table, found at the link below, which depicts bear market periods and subsequent returns).”

https://www.fidelity.com/viewpoints/market-and-economic-insights/bear-markets-the-business-cycle-explained

So, what does this mean for my investments?

Though we believe the stock market will continue its wild swings for the coming weeks we remain confident, especially given the amount of liquidity being thrown into the system, that markets will stabilize in the future and fully recover over the subsequent market cycle.

So, what should you do during times like these?

Here is an excerpt from the whitepaper you can access upon request entitled, “What to do in A Down Market”.

In it we hope you find useful information including the following wisdom from some renowned investors.

“A market downturn doesn’t bother us. It is an opportunity to increase our ownership of great companies with great management at good prices.” ~ Warren Buffett, chairman and CEO of Berkshire Hathaway

“Your success in investing will depend in part on your character and guts and in part on your ability to realize, at the height of ebullience and the depth of despair alike, that this, too, shall pass.” ~ Jack Bogle, founder and former chief executive of The Vanguard Group

First, we believe that making emotionally charged investment decisions can lead to poor investment results. So, sometimes the best course of action is to take no action at all. In fact, at current stock prices and valuations it may make sense, if you happen to have excess cash, to consider adding to your equity exposure a little at a time. Keep in mind, the hardest thing about the concept of buying low and selling high is implementing it.

Second, we encourage you to consider reviewing your financial plan. Revisiting and reevaluating your goals, timeline, risk appetite, desired asset allocation and cash-flow needs could help you stay the course or possibly make necessary adjustments if you notice imbalances develop. Of course, if you don’t currently have a financial plan, this is one item you will want to put on your priorities list and a great reason to visit with a financial advisor asap.

Third, be patient and remember that this too shall pass. Revisit the First Trust chart found in the Fidelity link:
https://www.ftportfolios.com/Common/ContentFileLoader.aspx?ContentGUID=4ecfa978-d0bb-4924-92c8-628ff9bfe12d

This chart shows historical performance of the S&P 500 Index throughout the U.S. Bull and Bear Markets from 1926 through 2019. Although past performance is no guarantee of future results, we believe looking at the history of the market’s expansions and recessions helps to gain a fresh perspective on the benefits of investing for the long-term.

- The average Bull Market period lasted 6.6 years with an average cumulative total return of 339%.
- The average Bear Market period lasted 1.3 years with an average cumulative loss of -38%.

So, in our view, patience can provide added dividends to the long-term investor.

That said, if you are still not quite comfortable, for whatever reason, with your current portfolio mix and would like a review for possible investment and or tax improvements, a portfolio stress test can highlight areas in your portfolio that may not be in line with your risk comfort. During times of market drops it is often prudent to evaluate opportunities to reduce future tax burdens. So, feel free to reach out and we would be happy to provide a complimentary market stress test or tax minimization evaluation.

We hope you and your family remain safe and well in these trying times.

Thank you,

Daniel

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