Q1 / 2020

Weathering the Coronavirus Market Downturn

First and foremost, we want to thank you for the continued trust and confidence that you place in us.

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Blue Bell
PRIVATE WEALTH MANAGEMENT

Jim Behr
Vice President

We have spoken with many of you via email or phone over the past days, weeks, and months and will continue to provide you with information and updates pertaining to the markets and some benefits that can help you during the pandemic.

Although we asked in our Q4 newsletter "Has the Panic Begun?" I don't think anyone could have predicted the events that have unfolded during the first quarter of 2020. The COVID-19 pandemic that is plaguing the world is what can be referred to as a "Black Swan" event. If you are unfamiliar with this term it was popularized by Nassim Nicholas Taleb in his book The Black Swan: The Impact of the Highly Improbable. Taleb describes a black swan event as one that cannot be predicted, is extraordinarily rare, and has extreme, often catastrophic, consequences. Our current environment certainly fits this definition. There will be those that say they warned of impending economic doom and few who sounded the alarm of a global pandemic that would bring the world to a halt. Yet there was little warning about this virus, which has impacted not only financial markets but the lives of human beings globally at a speed and scope seldom seen before, until it was almost too late.

News surrounding the infection rate and deaths as a result of this global pandemic is unavoidable. Medical experts and government officials have warned that this will affect everyone. Rather than attempt to provide details about an infectious disease that we know little about, we'd like to acknowledge and thank all of those that have been working on the front lines through this crisis allowing many people to maintain a semblance of normality and safety during these times.

With much of the world being forced to remain at home, there has been little ability to avoid the economic downturn that has resulted from this virus. If it feels like the month of March was one of the most nerve-wracking, frightening, and volatile markets, that is because, historically speaking, it was!

Asset classes across all financial markets experienced swift downturns in March as some investors flocked to the safety of cash. Equities, bonds and commodities including assets such as gold, considered a safe haven during volatile markets, all saw declines. U.S. Equity indices, as measured by the S&P 500 declined 35.4% from their highs that occurred on February 19, 2020. It was one of the quickest declines into a bear market that investors have ever experienced. To highlight just how volatile the month was, we looked at the absolute value of the daily changes within the S&P 500. The S&P 500 index, on average, had a daily change of +/- 4.89% during the month of March. To allow for some perspective, included below is a table of daily movement along with volatility measurements for the month of March 2020 compared to October and November of 2008, known as the Great Recession.

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	S&P 500	Dow Ind. Avg
Mar-20	4.89%	5.24%
Oct-08	3.88%	3.76%
Nov-08	3.77%	3.26%
Oct-Nov 08	3.83%	3.53%

The VIX Index, often referred to as the "fear gauge" in equity markets, soared from 12.10 on January 17, 2020 to 85.47 on March 18, 2020. A change of greater than 700% in a little over two months.

It cannot be stated much better than the title from New York Times columnist James Stewart's column on March 27: "I Became a Disciplined Investor Over 40 Years. The Virus Broke Me in 40 Days." If you have not yet seen or read the article, I would recommend you do so.

No matter your investing discipline, volatility can be scary. Typically, when the market is positive by 1%, 2%, or even 5% within a day, it feels good. That changes when those days come after similar percentage declines and are subsequently followed by another drop. As stated before, this volatility was exacerbated by indiscriminate selling across all asset classes as some investors moved to cash for safety and liquidity.
Where does that leave us now?

Dr. David Kelly, J.P.Morgan's chief economic strategist, stated on a recent call that 2020 will be a uniquely terrible year due to the virus, but not like a depression or the Great Recession because there will be an end to this. The problem is that no one knows when. They are currently forecasting for the economy to first go through a sudden fall, which is currently occurring, a stall, anticipated during the 2nd & 3rd quarters, then a surge in 2021.

It would be hard to imagine that any business, large or small, ran scenario analyses or stress tests under which there was $0 in revenue. That is currently what many businesses across the country are experiencing.
Even more unfathomable just a few weeks ago is that this is a direct result of government mandates that most of the labor force remain home. This is not the result of an economic or financial shock rather an attempt to slow the spread of the virus in order to avoid overwhelming the healthcare system. Some businesses have been able to pivot and help in the fight against the virus by manufacturing PPE, ventilators, or even hand sanitizer.

There is some positive news as we enter the second quarter. The federal government approved the CARES Act in order to help prevent the economy from falling even further. The Federal Government has stepped in to help backstop financial markets with more ammunition than it did in 2008. These actions are essential in ensuring that the highest possible number of U.S. businesses and individuals remain solvent and then to jump start both goods and services once the pandemic passes.
The question many people have been asking is have we hit the bottom?
Truthfully it is never known until after it has occurred. This is why we always stress that time in the markets is more important than timing the market. The problem with timing the market is that you need to be correct twice, when to sell and when to buy back in. It can be easy to get out of the market as it will provide comfort as your net worth is no longer at risk but having the courage that is required to get back into the markets seldom

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is done, if ever. Many investors wait until the market has already regained most of its losses to get back in and miss out on returns during the recovery.

What we can say is that equity market downturns throughout history have rewarded investors that have stuck to their plans or had the ability to put more cash to work when things looked grim. This is not saying they were able to nail the exact bottom, merely long-term investors with extra cash on the sidelines were able to put this money to work at lower price points.

Our team continues to do our best to help all of our clients, if you have any questions about your portfolio, how the CARES Act may affect or benefit you, or any other needs please do not hesitate to reach out to us. We are working remotely as mandated by the governor but have provided our personal phone numbers if needed please don't hesitate to call. Again, we cannot thank you enough for the trust you place in us. We hope you and all of your loved ones stay safe and healthy.

CARES Act overview

On March 27, the president signed into law the Coronavirus Aid, Relief, and Economic Stability (CARES) Act, the largest stimulus bill Congress has ever approved. The $2.2 trillion bill came together in just 10 days after intense bipartisan negotiations led by Treasury Secretary Steven Mnuchin and Senate Minority Leader Charles Schumer (D-NY). The bill was approved 96–0 in the Senate and passed by voice vote in the House of Representatives. Key elements of the new law include:

- $532 billion for large businesses and local governments
- $377 billion for small businesses
- Estimated to total $300 billion in direct payments to families in the form of $1,200 checks ($2,400 for couples) plus $500 per child to individuals earning $75,000 or less ($150,000 for couples)
- $260 billion in expanded unemployment benefits
- $150 billion in direct aid for states and municipalities
- $125 billion for hospitals and other health care providers

MORE CARES ACT HIGHLIGHTS

- The tax deadline has been moved to July 15th, 2020. This includes the contribution deadline for both IRA's and HSA's
- Required Minimum Distributions for 2020 are waived
- Special hardship withdrawals from retirement accounts will be allowed in 2020
- Improved Lending and tax credits for small businesses
- Expanded unemployment and stimulus checks for up to $1,200 per adult and $500 per child

You can read a more detailed overview of the CARES Act on our website under the insights tab. If you have any questions about this bill, please do not hesitate to reach out.

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REMINDERS

- If you mail a check, please make the check payable to "Charles Schwab & Co, Inc." with your account number written on the check.
- Talk to your children about the benefits of investing in a Roth IRA account.
- Mention to your friends and family about signing up for our weekly blog posts and personal weekly reads about retirement, investing and more on our website!

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