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NAVIGATING A PANDEMIC

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The coronavirus infection has officially become a pandemic, and we have learned a lot over the past few weeks. First, we now have an official name for it: COVID-19 (though it doesn't seem to be sticking). While most similar infections affect the nose and throat, COVID-19 also infects the lungs, which increases the odds of pneumonia.[1] So, we have a double-whammy: COVID-19 has a higher mortality rate because it infects the lungs, and its presence in the nose and throat allows it to be spread as easily as the common cold, via air particles resulting from sneezing and coughing.[2]

Depending on the report, the mortality rate ranges from just less than 1% to 1.2% of reported cases. For some, this doesn't sound so bad. But when you consider it, it's not hard to imagine hundreds of thousands – or even millions - of people infected. This puts it somewhere between the 1918 influenza pandemic with a .6% mortality rate and the 1957 influenza pandemic at 2%.[3] Most people who have not survived the virus had severe health issues such as diabetes, hypertension or cardiovascular disease, and most were older than 60.[4]

Now, the (relatively) good news.

Breaking research suggests that the actual fatalities from the virus will number much less than 1%. Most who are carrying the coronavirus infection (see, not even I can completely stick with calling it COVID-19) simply exhibit normal flu-like symptoms and don't even seek medical care. Our current estimate of the percentage who may die from the virus is based on known, reported cases. We saw this as recently as 2009 with the H1N1 pandemic, when mortality estimates were well over 3%, but eventually dropped below our regular winter encounter with influenza, at less than .5%.[5] Research from Northeastern University,

SOMETHING LIKE THIS IS GOING TO HAPPEN JUST ABOUT ONCE A YEAR, EVERY YEAR, FOR THE REST OF YOUR LIFE.

[1] Federation of American Scientists, 2-28-20.
[2] Federation of American Scientists, 2-28-20.
[2] The Novel Coronavirus Pneumonia Emergency Response Epidemiology Team. The epidemiological characteristics of an outbreak of 2019 novel coronavirus disease (COVID-19) – China, 2020. China CDC Weekly 2020; 2:1-10.
[4] Federation of American Scientists, 2-28-20.
[5] Why we still don't know how deadly this coronavirus is, Caitlin Rivers and Crystal Watson.

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among others, suggests that based on what we are learning about unreported cases in China, the mortality rate may be dramatically less than estimates, given that the carriers are largely unknown.

Also in the good news category: Chinese scientists published COVID-19's sequenced genome within two weeks of the first reported case.[6] According to the National Institutes of Health, there are already indications that Phase 1 vaccine trials will begin within three months. Anti-viral treatments show positive signs and are already being tested in China. Work has quickly begun on a vaccine, which may be available by next flu season. Finally, we also know that if push comes to shove, China has proven that quarantines do work.

So what in the world is going on with the markets?

Well, over the long run, the market only cares about one thing: earnings. If you invest in a company and its expected earnings rise, you can expect the stock price to increase (i.e. – Apple releases a new product that takes the world by storm). If you invest in a company and its expected earnings fall, you can expect the stock price to decrease (i.e. - a drug from a pharmaceutical company gets banned by the FDA). Over the short run, the market doesn't really follow this basic rule perfectly, and often the market is driven largely by two things: fear and greed. Just a few weeks ago, the 'greed indicator' was hovering near all-time highs. Today? Well, the fear factor is through the roof. And why is that? What causes more fear than anything else? Uncertainty! Much like an undiagnosed medical condition, the market fears nothing more than uncertainty. And over the short run, the coronavirus brings us a large dose of just that.

Right now, the market is driven lower by both the short-term uncertainty and the fundamental impact on earnings. The reality is that COVID-19 is disrupting the global economy. The component parts that run many of the things you own are made all over the world, and of course, a considerable amount comes from China. It's easy to see why the market is concerned about earnings from companies with ties to China and other countries dealing with an outbreak. And it sure doesn't take a business analyst to decipher why Royal Caribbean stock is down 33% in a few weeks. But the market's broader concerns are very real.

Let's play this out.

It's not impossible to imagine this scenario: Every day for the next few weeks we hear of yet another city with a new 'first' COVID-19 carrier in the U.S., across Europe and around the globe. Eventually, that turns into thousands or tens of thousands of cases. Hundreds if not thousands of people die. People begin to cocoon, much like they did after 9/11, skipping their travel plans, athletic events,

[6] Where did the coronavirus come from? Past outbreaks provide hints, Denise Chow 2-28-20.

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concerts, movies, restaurants and so on. Some cities even ban large gatherings. You start to see news reports from your local Wal-Mart or grocery store of barren shelves. People generally, well, they freak out. This would clearly have an impact on the earnings of all sorts of companies, from Chipotle to AMC theatres, from Ford to Delta and from Target to Nestle.

But here's the thing. And, I might add, this is a BIG thing. It is, in fact, the only thing that should matter to an investor:

This is going to pass. We are all not going to die.

It may pass in a few weeks, it may pass in a few months. No one knows for sure when it will pass. But it will. And when it does, the market will likely recover just as fast, if not faster, than it went down. We know exactly what is modestly disrupting earnings now. When that concern is addressed, however and whenever that may be, the market will likely turn swiftly.

Please note: This will not come with a proclamation. No one will announce that the market will start to rise because the concern has passed. The market will go up ***before*** then. The reason is that the market isn't looking at what is happening today, but rather, it's betting on what will happen tomorrow. It is not looking at current earnings, but at anticipated earnings. This is why market recoveries often involve a few false starts, especially when the market has perhaps guessed wrong.

Make no mistake. This is a classic correction, a textbook bear market. It has all the elements that indicate something may hurt earnings in the short run, but that something will likely be resolved in the long run. Frankly, timing this is for suckers. Those who try, more often than not, get burned.

Now, you may think you can outsmart this one. You'd get out or get more conservative NOW, and figure out a good time to get back in. But keep this in mind. Something like this is going to happen just about once a year, every year, for the rest of your life. That's about how often corrections happen. They just occur for different reasons, whether it's President Trump's election, President Obama's election, the downgrade of U.S. Treasuries, Brexit, a terrorist event like 9/11, the Greek Debt Crisis, Ebola or whatever.

What are your odds of success if you try to navigate each one, or just a handful? If you are still pondering, let me answer for you: very, very poor odds. Even this specific scenario is likely to happen several more times in your lifetime. In 2003, SARS became the *first* coronavirus to cause severe diseases. It was followed by MERS in 2012 and now COVID-19 in 2020. As MRI Global reports, it's sort of a new thing that is likely to happen again and again.

Keep in mind also that your financial plan accounts for where you stand today, and what you are trying to accomplish in the future. Some of your investments generally don't go down in a market

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like this. Nearly every one of our clients owns either bonds and certain alternative investments that are posting gains through all this. *This is precisely why we own these investments.* If you have money you need tomorrow, or even 3 or 4 years from now, it shouldn't be in the stock market. And for our clients, it isn't. This recovery may take weeks, it could take months, and while we doubt it, it could take even longer. That's why we have your short-term needs covered. Not because of this event, but because there can, and always will be, some sort of event that can disrupt short-term plans.

The bottom line is this: We don't know when this will pass, but it will, and we understand the evidence that suggests the best way to manage a portfolio through a shorter term disruption, so we can improve the odds our clients stay on track.

We continue to make sure our clients' short-term needs are met *outside* of the stock market. We invest in stocks *for the long run*. Meanwhile, opportunities will likely present themselves. And as we have done during past market pullbacks, we plan to take advantage of them. Volatile markets are a wise investor's best friend.

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