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NAVIGATING A PANDEMIC - PART 2

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The coronavirus continues to spread and the tone in the United States and all over the world has shifted sharply over the last 24 hours. In a very eventful day, the World Health Organization declared the coronavirus a global pandemic, Italy took major action, and financial markets took a big hit.

As of today, there are over 1,000 Americans diagnosed with the coronavirus and 38 deaths. It is estimated that tens of thousands more have it and don't know it. The virus continues to spread exponentially. Italy, which identified its first case just two weeks before the United States, has shut their country down completely. If it is not a hospital, pharmacy or food market, it just isn't open. President Trump held a press conference this evening covering the administration's plan of attack. President Trump said that beginning Friday, all travel from Europe will be suspended for 30 days, excluding the United Kingdom. Within hours, the Department of Homeland Security said the travel ban only applies to foreign nationals who have been in Europe within 14 days of arrival in the U.S., and does not apply to U.S. citizens or immediate family of U.S. citizens. He also stated that health insurance companies have agreed to waive co-payments and cover coronavirus treatments, but several insurance companies disputed this the same evening. President Trump also covered financial measures, including a pending plan to provide financial breaks to workers quarantined. For businesses negatively impacted by the coronavirus, which potentially could be nearly all businesses, he proposed the idea of an interest-free delay of tax payments.

THIS IS WHY WE HAVE A PLAN. THIS IS WHY WE HAVE A STRATEGY. NOT FOR THE EASY UP MARKETS, BUT FOR MARKETS LIKE THIS ONE.

Today also saw universities across the country suspend classes indefinitely. The NBA went from saying they would play to no crowds earlier in the day to a total suspension of the season. Many cities enacted bans prohibiting crowds from gathering. And much more is likely to come.

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But you knew that already.

So what is going to happen? Let's get that out of the way right now. No one knows. Yes, there are those that say 100 million Americans will get the coronavirus and hundreds of thousands will die. There are those who think a few thousand people will die and this will all be a distant memory in just a few months. And, of course, there are the hundreds of scenarios in between.

But here's the thing when it comes to investing. If you know for certain things will get much worse, and that you can tell ahead of time when things will get better, then you should go to cash and reinvest at that point. Now, I've been at this for 20 years now, and I have never – not once – seen that happen. Apparently, neither has Warren Buffet or the late, great John Bogle, both of whom repeatedly mentioned they have never met anyone that successfully timed the market.

So, when it comes to investing and you don't know with certainty what is going to happen, you stay invested. There are two ultimate outcomes (it really is this simple): (1) The world ends as we know it, in which case nothing works, or (2) The world recovers just fine and gets about its business, in which case you financially come out smelling like roses.

I know, I know, there are all the reasons in the world for us to conjure up scenarios where the world goes on but companies do not. That world just does not exist. At the core of the financial markets is a simple concept we all learned at a very young age, but it gets lost in all the additional information we have accumulated over the years: people want stuff, and if people want stuff, people will make stuff to sell them. It's basic supply and demand.

If the world is not going to end, and this is a temporary disruption of supply and demand, then why are the markets so volatile and reacting so negatively? There are two reasons. First, a disruption of supply and demand means a disruption of corporate earnings. Whether you are invested in Chipotle, McDonalds, AMC Theatres, Carnival Cruise Lines, Southwest Airlines, or just about anything else (sans pharmaceutical companies and some other exceptions), earnings will probably be down for a while. But that really isn't the big deal. Investors are not too concerned about short-term disruptions. What investors worry about is long-term disruptions, which is the second reason. In 2008, investors were concerned the financial system could possibly take years to recover. After 9/11, investors wondered if and when there would be another attack and how long it would take for Americans to stop 'cocooning' and get back out and about, spending money. If a retail strip center has construction in front of it that is going to be completed in two months, an investor will still pay full price. But if the construction is indefinite, and could go on for years, an investor will pay less, if anything at all. The market is just the collective thoughts of all of us, and all of us don't really know how long this will go on and what the lasting impact, if any, may be. In a worst-case scenario, the outbreak lasts for months, kills tens of thousands or even hundreds of thousands. Companies lay off

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people due to a lack of demand, creating less consumers that creates more layoffs and on and on, sending us ultimately into a recession. In a best-case scenario, everyone is back to normal in a few months, the market recovers in swift fashion, and we all move on.

So what is an investor to do? This may be the first COVID-19 crisis filled with uncertainty, but it is not the first market downturn created by uncertainty. ***In fact, there is only one thing all bear markets have in common: they come with a large dose of uncertainty.*** With 9/11, many feared the economy would take years to recover. With the Greek Debt Crisis, many feared it would lead to debt defaults all over the world resulting in a global recession. When United States treasury bonds were downgraded, many feared it would result in a lack of confidence in the United States and plummet us back into recession. With Brexit, many feared Great Britain would collapse as a global financial center, driving Europe, and with it the world, into recession. In all cases, we got through it. Someone who went to cash to "wait things out" got burned, missing the time to get back in (which is nearly impossible to do). Wise investors collected their dividends and waited things out. Brilliant investors continued to rebalance through the pullback, shifting from bonds to stocks, and also took advantage of tax loss trading. These investors generally recover faster than the market and are far better off after accounting for tax savings.

If you believe this will eventually, somehow, someday pass, whether it is in a few months or even a year, you stay invested, collect dividends, opportunistically rebalance and take advantage of tax trading opportunities. And while you are at it, take a look at all your debts and refinance to the lowest rates possible.

We will not all die. There will be a recovery. When the recovery comes, pent up demand will return, and there will be businesses eager to meet that demand. And the economy, and markets, will do what they always do: march onward. And if you can stay engaged, you are far more likely to march on towards your goals than if you try to time your way through this.

It's been said that there are two types of soldiers in the Army: those who can shoot at the range and those who can shoot when being shot at. We are the latter. We are prepared for markets like this and so are you. ***This is why we have a plan. This is why we have a strategy. Not for the easy up markets, but for markets like this one.*** Now is the time to push through it, however long and painful it may be, and come out on the other side, better off than had the market done nothing at all.

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