

Coronavirus Part 2 or Mr. Toad's Wild Ride

By Bob Deitrick, CEO and Steven Morgan, CFO

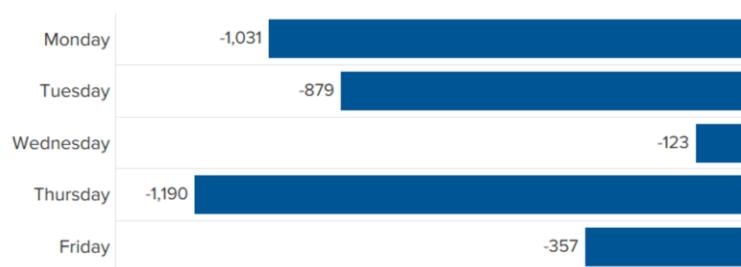
March 3rd, 2020

We asked in our newsletter of two weeks ago whether “the coronavirus was something to worry about?” Our response then was no. We are not clairvoyant, and we cannot predict the future as there are many elements to consider. Despite the volatility of last week, and this week to date, we hold onto our original view. There are some variables to consider which we will discuss in a moment.

Last week we experienced a stock market correction in one single week. The speed of this precipitous drop broke records going back to 1930. The coronavirus scare was, sans question, the culprit. Keep in mind that this virus had been a non-event for the prior six weeks. Now that we have seen 6 deaths in the United States, it is apparently terrifying, and the media and fear caused the markets to capitulate. The DOW shed 3580 points for a 13.9% drop from the peak of February 12th when we stood at 29,551. The VIX spiked to 50 intraday Friday but rallied to 40 as the market closed. Today the VIX went back to 40. If the VIX remains above 30, we are in for some more turbulence on “Mr. Toad's Wild Ride...”

Dow Jones Industrial Average daily point drops

Week of February 24, 2020



SOURCE: FactSet. Data as of market close on 2/28/2020.



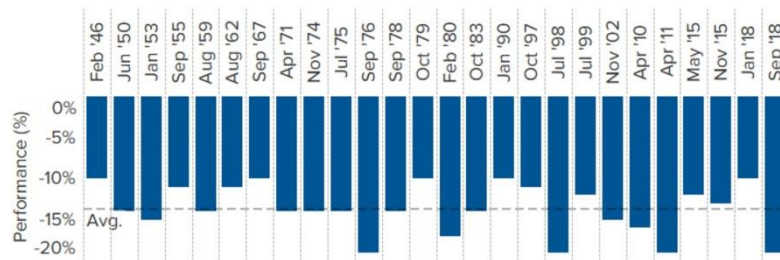
Having said that, let's review some facts. The market had been appreciating, virtually non-stop, over the 14 months. Steven and I knew we were due for a correction. It was not if, but when a correction would materialize. The coronavirus became the pretext for what transpired last week. The question you are asking is whether this is the beginning of a bear market or recession, or is this still a healthy market going through a transition period in order to move forward... We suspect the latter.

A stock market correction is a drop in stock prices of 10 percent or more from their peak. Keep in mind, historically, market corrections occur every 8 to 16 months and last about 54 days:

- There have been 26 market corrections since World War II with an average decline of 13.7% over an average of four months. This correction took place in 6 days.
- The last correction occurred from September 2018 until Christmas Eve of that year. The S&P 500 bounced in and out of correction through the fall of 2018 before plunging into an almost bear market Christmas Eve. Two months later the market had made a full recovery.

Market corrections since World War II

The 26 corrections have averaged a decline of 13.7% over four months, and have taken four months to recover



SOURCE: Goldman Sachs, CNBC research



We understand how grueling it is to stay calm during these tumultuous times. However, we ask for your fortitude. Our counsel at PFP is to:

- ***Resist the urge to "time the market." Although it's possible to make some short-term money trading the ups and downs of the market, strategies like swing-trading rarely work for building long-term wealth and are analogous to going to the Mirage in Las Vegas.***
- ***Most people lose money trying to move their money around to participate in the ups and avoid the downturns. This is called behavioral finance and it does not work.***
- ***The data illustrates that most folks lack the discipline to stick to a winning investing playbook in correcting markets and tend to transact at the wrong times causing even larger losses.***

As wealth-managers, our job is to build portfolios based on science - not subjectivity. When we built your portfolio, we expected that one of every 4 calendar quarters would produce a negative return. We control the magnitude of the negatives by creating a portfolio that has the highest relative alpha while also producing the lowest relative beta and standard deviation.

"If you're going to invest in the market, understand that corrections do occur, they are building blocks to a healthy market and it's best to ride them out. Resist the urge to trade and profit from them. Follow the Wall Street cliché – you 'can't catch a falling knife'." – Steven Morgan, CFO

Over the 5 years before 2018, the Dow almost doubled without a tangible pullback. In each of these years, many analysts portended a recession. These forecasts caused many to panic and pull out of the market early. Those folks are licking their wounds now as they lost the impressive gains since 2018.

Politically and economically speaking, there are some things we need to see to get us out of this news cycle and to get the market on track... There is a risk that politics may take priority over what needs to happen. What we need today is rational, thoughtful and enigmatic leadership from Congress, The White House and our world leaders. Steven and I want to see the following:

- ***President Trump got his task force set up last week to deal with the crisis – led by Veep Mike Pence. President Trump needs to work with President Xi of China to show cooperation, find a vaccine and create financial stability. Both leaders need to roll back all tariffs and bring***

confidence to the markets. This would go a long way toward illustrating Trump and Xi are going to work together to avert a crisis and this would provide certainty to the world markets.

- **Trump blaming the Democrats and the Democrats blaming Trump will not solve anything! We need to see our leaders, on both sides of the aisle, work cooperatively and not act like 3rd graders.**
- **Next, we want to see the Fed Chair Powell act and work cooperatively with other Fed leaders around the world. They need to act this week in tandem and reduce interest rates by 25 basis points to provide liquidity, solace and some confidence back to the markets.**
- **Today, The Fed reduced rates by 50 basis points which was a mistake. They should have waited and done this in coordination with the EU and reduced by only 25 bp. A 50-point reduction was overdone and sent the wrong message to investors and the market.**
- **The virus needs to be contained so it does not spread. FEMA needs to get involved and we need a vaccine. The sooner this happens the markets can return to a place of greater stability.**

Having said all of this, we want to create some perspective for you. The coronavirus has killed 3131 to date - most of these deaths have been in China and were among the elderly. Here's some perspective:

- **The CDC has reported modest spread of the virus in several states.**
- **Most coronavirus deaths have been among the poor, elderly and those living in China.**
- **We suspect we will look back at this as a bad flu season, with two strains of flu instead of one.**
- **Some perspective:**
- **This winter season the CDC estimates the following on this flu season:**
- **32 to 45 million Americans have had the flu so far this season. 500K of those have been hospitalized. 18,000+ Americans have died this flu season. We've lost ~ 150+ Americans every day this winter which ends in March. Most of those deaths have been our elderly and children. Where is the media on this matter? I have not seen one word...**
- **Every day in the United States, 22 of our American Vets kill themselves. 22! We lost 34K of our Vets to suicide last year! We have lost ~ 375,000 Vets to suicide over the past 12 years!**
- **Every day we lose 130 Americans to fentanyl and opioid overdoses. Over the past year we lost 50K to 70K Americans from these two drugs. This costs American taxpayers \$700B annually!**
- **Every single day more than 100 Americans die by gun suicides and 200 more are shot and wounded by gunshot. 60.9% of gun deaths are gun by suicide. We lose over 37,000 Americans every year to gunshot violence and suicide. Why aren't we discussing this issue?**
- **There have been six coronavirus deaths in the U.S. I am not trying to be callous, but six deaths and this is all the media can cover? Therefore, some perspective is important here...**

We have said it before and we will repeat it. We suspect that this too shall pass... They will find a vaccine, over time, the tide will turn, and things will improve. Once this occurs, the markets should improve also. Strong markets climb walls of worry. Please strive to keep some perspective and don't get aggravated by the media. We are watching all of this closely for you, in real time, and we will keep you apprised of our concerns. So far, the economic fundamentals remain intact which is key. Please call Steven or me with your questions. We are always here to serve you. Have a terrific week!

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