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QUALITY FINANCIAL CONCEPTS

QFC's Insights

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The Markets have a Virus – The Coronavirus

“Bull Market Killer or Fading Symptoms & Complete Recovery”

By: Doug Horn, CFP®

The world investment markets have become unnerved by the spread of a new coronavirus. The U.S. markets have erased recent gains and is now negative for the year. This in itself is nothing unusual. Markets routinely rise and fall and depending upon the timeframe, can be negative for the year. The difference this time, is an ‘unknown’.

Perhaps some light can be shed and a few questions answered. This is a new virus strain only recently detected in humans. Per the Center for Disease Control (CDC), coronaviruses are a large family of viruses which are common in camels, cattle, cats, and bats. Rarely can an animal coronavirus infect humans and then be transmitted person-to-person like MERS-CoV, SARS-CoV, and now SARS-CoV-2. All three of these viruses have their origin from bats. Those infected with the SARS-CoV-2 virus are said to have Coronavirus Disease 2019 (COVID-19). Since it is a new virus, humans have little or no immunity against the disease and its potential impact is unknown.

Some are calling COVID-19 a ‘pandemic’. While it may eventually be officially classified as a pandemic, currently it is an outbreak with sustained human transfer. A pandemic is a new disease creating illnesses including death, with sustained human-to-human transmission, and worldwide spread of the disease. While there are cases in many countries, the sustained transfer of the disease is not occurring everywhere. And while deaths have occurred, which is tragic, the total number at this time is less than 3,000. Will this become worse? The world has seen many outbreaks, even epidemics, but only a few turn into pandemics. In researching this virus, I was amazed at the number viruses the CDC is monitoring and rated for the potential impact to humans. Many of these have an avian (bird) origin, such as H1N1 and causes an influenza.

The Concern

For the global markets, the concern is the potential slow down of economic production before a treatment or vaccine is produced. If factory workers are ill causing the factory to close, products may fail to reach their destination, thus interrupting the production of other products. One or two factories, even dozens of factories shutdown may only become a nuisance. But, if the impact grows worldwide

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impacting the supply chain of goods across many lines and countries, the ripple effect may grow causing a slow down of economic output. When this happens, if it happens, the value of the publicly traded companies are reassessed, most likely causing the value to decline.

The Solution

Containment or control. Is SARS-CoV-2 serious? Yes. Thus far tens of thousands have become ill and thousands have died. But, like the Ebola virus epidemic which occurred less than ten years ago, it caused thousands of deaths, but with the aid of health agencies around the world, containment was achieved. It is my belief one of the worldwide health agencies or public companies currently working to create treatments, or vaccines will develop a partial or complete solution soon. Unfortunately, the actual impact of this disease will not be known until the end is in fact reached. So, it is important to monitor data and trends, and some of the trends are improving. Looking to China, the origin of this outbreak, with the most history and may provide insight into the cycle of COVID-19. The number of deaths reported each day, appears to have peaked between February 12th and the 18th. Since that date, the number of deaths reported have declined for most days, perhaps indicating improving conditions.

Just the Facts

Earlier in February the U.S. Investment markets were at record highs following fourteen months of trending higher. Interest rates remain low, encouraging economic activity and unemployment rates are also at record low levels. If there is an interest rate change by the Federal Reserve, it will be to lower rates, thus adding liquidity to the markets. The Dow Jones Industrial 30® had reached levels above 28,000 this year. When the value of an index reaches this type of level, the point movement becomes meaningless to everyone except the press. Yesterday's point drop was the largest single day move in the history of the index. However, in the terms of a percentage move, it is ranked the 8th largest drop. Presently, the Dow's index is off 12.8% from its most recent highs which by historic definitions, is now in correction territory. Corrections, occur on average once per year and is defined as a ten percent decline from the most recent high. There have been periods where it has been years between corrections and on rare occasions, two corrections occurred within a twelve month period.

Most experts are saying the current move is 'over sold', and if true will create opportunities to take new positions at better values than a week ago. While I believe most of the current volatility is caused by the unknown of COVID-19, add in a Presidential election year and the volatility will increase.

Steps to Take

Do not panic. Making an emotional financial decision will not leave you in better shape, and may hurt your overall plan. The Dow's value has fallen back to levels it last held in the middle of August, 2019 and may reach earlier 2019 values. Thinking back to last August and account values held at that time, I hope no one was looking at their accounts and was worried they were facing financial despair. Most likely, this correction has taken back appreciation since that time and not principal. Losses are never fun, and when account values have grown to all time highs, even a small percentage loss like a correction can create a dollar amount which can be difficult to take. We are looking for opportunities to take new or extend current positions at now lower values. But, we are being cautious.

If you have questions about our actions or your accounts, please reach out to us. We are here to answer your questions in addition to managing your investments.