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The COVID-19 virus has been dominating the news and our lives! While many are not surprised that the virus is spreading across the US, the fear and panic was not anticipated by either the financial markets or the general public. Grocery store shelves are bare, vacations cancelled, visitors limited to assisted living centers and schools are closed. The stock market has been very volatile, dropping from their record highs in February.

First, as a point of reference, the S&P 500 at the end of trading yesterday was about the same as the level the index fell to on December 24, 2018. We had an impressive recovery after that drop- we can recover from this crisis too.

I want you to feel assured that actions are being taken to help us get through this crisis. The financial experts say that there needs to be three responses:

1. Social response- People must personally do their part to control the spread of the virus. Washing hands, limiting touches to your face and social distancing are all important factors. We see the public taking this seriously by reducing social gatherings, cancelling public events and generally planning to stay home when possible.
2. Fiscal response- This is action to be taken by Congress and state governments to help businesses and employees deal with the financial fallout of a sudden business reduction or employees staying home from work due to quarantine or distancing. So far, we have not seen anything here, but Congress remained in session to try to pass something early this week.
3. Monetary Response- The Fed has made a few moves to help keep the markets orderly and working correctly. They have twice lowered interest rates and provided liquidity to the bond and repo markets. This means that if anyone wants to buy a Treasury bond and there is no seller, the Fed will sell them one. Likewise, if someone wants to sell, the Fed will buy. Unfortunately, there were cases last Friday where there were no buyers/sellers at different times for Treasuries, potentially causing the markets to freeze. Now that is not a problem. It also helps to keep the dollar strong against foreign currencies, which is critical to encouraging foreign trade. The Fed has taken criticism for making these moves, going too big too soon, but I disagree. They are being proactive rather than reactionary in their actions. Despite what you hear in the media, the Fed has other moves they can make to help in the near future.

What are we recommending? First, it is a good time to examine your personal finances, if necessary. Do you have too much debt or spending? Do you have an opportunity to lower a mortgage interest rate, now that rates are really low? Are there major purchases that are planned, or retirement plans looming? It is good to step back and see if there are any adjustments that need to be made.

What steps are we taking for clients? For those taking income, we have been selling from bond accounts only, to avoid taking losses by selling stocks. For non-IRA brokerage accounts, we try to incur tax losses to be used to offset gains that come late in the year. We are not trying to time the market by selling and buying in later. It is easier to guess when to sell, but very difficult knowing when to buy back in. It is better to stay with your allocations and ride the markets back up.

Sometimes people feel better when they take some control of their situation, rather than just letting events dictate their lives. This urge needs to be balanced by the fact that regret is often more intense when an outcome is caused by your actions that went wrong. Times are tricky- we must be measured with our response.

Should you buy in when the markets are this low? It is said that you should buy when everyone is scared! But we do not feel that you should make big buys today, unless you are willing to watch the markets go lower after you buy. We will see some big gains and big losses in the days ahead. If you wish to buy in, please let me know. Otherwise, we will wait this out- I feel that when the rebound comes it will move upward with a similar speed as it fell. We are telling people to sell or buy in gradually, with a plan of how much to buy/sell over a specific period of time. It may limit your gains with a sudden upswing, but also temper your losses if the markets still trend lower.

Market corrections are uncomfortable but necessary for future strength and growth. Program trading speeds up the process. But in the end, we need people to become healthy and let the virus diminish. A vaccine is entering human trials and summer is coming. Only then will we see the panic subside and some normalcy return to our lives.

Please call if you have questions- many people have called. If I am not available, I will call you at my first opportunity!
Thanks!
Dan