

## Yet Another Q&A About Investing Under the Influence of Coronavirus – Mar. 11, 2020

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### **We've been through so much as a country. Why did this event cause such a big reaction in markets?**

We have indeed been through a lot. You know the list – September 11, wars in various theaters, the global financial crisis, etc. But we've always recovered. It's important to acknowledge our resilience before we discuss what's happening now and what to expect in the future.



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Markets reflect investors' collective confidence about the future state of the economy. Sometimes that confidence is shaken by external shocks and markets fall as a result. The size and pace of any shock-induced decline is determined in part by its starting point. If investors have average confidence in the economy, a shock will likely cause an average selloff. Low confidence as a starting point might cause markets to completely shrug off a new shock.

Entering 2020, investors and the general public were extremely confident about the near-term state of the economy. The most telling indicator was the University of Michigan Consumer Confidence Index that reached very high levels relative to its historical average. Stock market valuations reflected that abundance of confidence.

With confidence hovering at very high levels, the stage was set for a large and fast selloff in response to any shock that caused disruption. Enter the coronavirus.

### **What's going to happen next?**

The words "uncharted territory" are used far too often to describe difficult circumstances. Sometimes there is no alternative, and this is one of those times. We simply don't know.

The economy will most definitely experience a slowdown of a currently undeterminable amount due to the coronavirus outbreak. It's not reasonable to witness the reaction around the globe and expect no negative impact on the economy. Investors should not be surprised when it shows up on their doorstep.

Slowdowns of any magnitude have historically been followed by recoveries. There is no reason to believe that won't happen this time, but there is uncertainty about the shape the recovery will follow. The possibilities are V, U, W, and L.

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How quickly the actual impact of the coronavirus outbreak on the economy is understood will influence the recovery's shape. The most likely scenarios are V and U. V means we snap back quickly; U means we pause for a while before recovery. W-shaped recoveries, sometimes called "double dips," have only occurred twice in our country's history.

Good news! There has never been an L (down and then stays flat) where the economy fell and didn't recover!

### **I've heard I should ignore all of this because I'm a long-term investor. Why am I finding that so hard?**

Because you're a human being.

Let's not sugar coat this. Losses from falling financial markets are hard to accept. Investments aren't just products with numbers on them. They represent investors' hope for a bright future, and it's painful when clouds darken the horizon.

Investors should take consolation in knowing conventional wisdom is rarely correct when markets make big shifts. A herd mentality often takes over that causes investors to become very dark or very euphoric at exactly the wrong time. The most insightful investors go out of their way to hold a different point of view. Indeed, the best investors are contrarians.

The herd was euphoric at the beginning of the year and it was wrong. Now the herd is negative in the extreme. We'll have much to work through in the aftermath of the coronavirus outbreak. But with history as our guide, our future is likely much brighter than markets currently expect.

### **This all seems irrational. How can I take advantage of the craziness?**

It could be irrational, but we'll leave that to public health experts to decide. When it comes to financial markets, the appropriateness of the reaction to the coronavirus outbreak is currently irrelevant. Markets think it's a problem, therefore it is one in the short term.

We don't fully understand how the economy is being impacted by the outbreak. We'll progressively know more as economic data are released by reporting agencies. Now all we have is headlines about closures, cancellations, postponements, and falling financial markets.

Signals sent by financial markets without supporting economic data will be especially unhelpful in this environment. The uncertainty of the situation means there is no playbook that will help investors avoid the next leg down in markets or take advantage of a reversal upward.

Overreaction to the scare, if this is one, could be creating opportunities for investors. But, like always, they'll only be visible in retrospect, meaning those who benefit from them will be lucky rather than smart. To get through craziness, stick with an existing long-term plan.

### **These markets are nuts and the TV news guy said there's pestilence in the streets. How can I calm my nerves?**

Easy, call your financial advisor and talk it through.

As mentioned, markets fall when confidence is lost. That means the biggest obstacle to long-term success that we face as investors is between our ears. We can't control markets, the economy, or dread viruses. We can, often with help, control

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our reactions to negativity. Sometimes just venting to someone who's trained in investment planning and has experienced similar situations is enough to make it through to the other side of a correction.

Hang in there! We'll get through this!

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