Sobering Week

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This past week has been very sobering and emotional to say the least. I expect more of the same in the weeks ahead. Many people didn't know a single person infected with coronavirus as recently as a few weeks ago. Now many know multiple people and counting. But I am confident this will not stand the future and we will prevail, however long it takes.

At times like these, it is very important to remain strong and have an optimistic view of the future. Thinking negatively and losing hope IS NOT AN OPTION. I am not a philosopher by any means, but I know from experience that optimism helps you tremendously when going through a crisis. A coach I know wrote a great article on ways to cope with this crisis:

1. Limit your news time.
2. Avoid negative people. Hear their story, process it and move on.
3. Focus on what you can control. There is no use thinking about situations that are completely out of your control as it will only increase anxiety.
4. Use positive affirmations.

Point #4 above is especially important. Our minds are programmed by our thoughts. The thoughts we repeat and dwell on determine how our minds are programmed. It's either positive programming or negative programming. Our thoughts are really everything in life. Think in terms of positive affirmations. Doing so can really help you relax your mind and your body.

I know it's not easy, but if you push yourself to think this way, it helps a lot.

"It doesn't do any good to think about what's going to happen to the economy, or for how long the stock market is going to decline or to how low. These things are unknowable. What really matters is whether price is proportionate to fundamentals. It's all about value."

-Howard Marks

It is all about value, but however long it takes to get through this crisis, we will get through it, and it's all about the long-term value of the equity you own, not the short-term value. This is how Warren Buffett looks at companies – they're not stocks, they're companies with cash flows.

The long-term value of a company like Proctor and Gamble is a perfect example. It may have pressure for the next year or so as the economy gets back on its feet, but are you cutting back on Bounty, or using paper towels even more to stay clean? Will you want Dawn less in the future? Likely more! Giving up on Crest toothpaste? Oral B Toothbrushes? Unlikely. Comet? Metamucil? Vicks? Pampers? Gillette? These are businesses with ongoing revenue streams, cash flows and profits that you are paying for and can be purchased for less today as a result of the coronavirus. Yet on the long-erm, they will be here and unaffected. When we think this way, we look at the market very differently. Long term cash flows are on sale as a result of people taking a pessimistic view of the world in the future.

Being cautious now is perfectly ok and justified, but this mindset can assist you in finding great businesses to buy that you believe will get through this crisis and perhaps be well positioned for the next economic expansion.

Forbes wrote an insightful article about retirement-plan provisions under the new $2 trillion stimulus law (the CARES Act). The new rules can benefit retirees who are taking distributions from their retirement accounts to satisfy their required minimum distributions (RMDs). When the SECURE Act was passed in late 2019, the trigger age for taking RMDs was increased to 72 from 70-1/2. For 2020, the new CARES Act states that you DO NOT have to take your RMDs at all. There are two good reasons not to take your RMD for 2020:

1. Since you pay ordinary income tax on your RMDs, your tax bill for 2020 will be lower.
2. You don't have to sell your stocks in your retirement accounts that have recently declined in order to satisfy your RMDs. This gives your portfolio more time to rebound from the crisis.

If you are dependent on this income during your retirement, then try to use your non-retirement accounts for cash flow.

As a Registered Investment Advisor, I feel it's important to share with you the best thinking I can find about navigating this crisis.
For example, I started this e-mail with a quote from Oak Tree Capital's Howard Marks, whom I deeply admire as a very pragmatic investor. In his MUST-READ memo to clients, Marks does an amazing job of summarizing the **positive and negative outcomes** that could occur as a result of this crisis.

In addition, Goldman Sachs produced a poignant report with insight from Jason Furman, former Chair of the Council of Economic Advisers, and Jan Hatzius, Goldman's Chief Economist. The following are their key points:

1. Both Furman and Hatzius agree that the near-term damage from the crisis will be severe, but whether or not it proves longer-lasting will depend largely on the virus's trajectory and on the actions of policymakers. Both men agree policymakers may need to do more.

2. Goldman lowered its full-year GDP forecast to -3.8% and expects a jaw-dropping -24% quarter-over-quarter annualized growth rate for Q2. (April-June).
3. They expect the U3 unemployment rate to peak at 9% (U3 is the most commonly used rate of unemployment and represents people actively seeking a job).
4. Goldman lowered its full-year 2020 Euro area GDP to -9%.
5. Hatzius expects a global recession of historic proportions--worse than we saw in the early 1980s or in the aftermath of the 2008/2009 Global Financial Crisis (GFC).
6. That said, Hatzius thinks it could take a year to recover to pre-virus levels once the pandemic is mitigated and growth rates could recover rapidly from very low levels.
7. The economic recovery will start in May/June of 2020.
8. Unemployment will rise to 9% in the coming quarters, just shy of the unemployment peak of 10% during the GFC.
9. They don't expect the hangover from this crisis to last nearly as long as the GFC hangover did.

Coronavirus is a BLACK SWAN (i.e. highly unusual) event that came out of nowhere. It will eventually DIMINISH as infections peak, immunity across the population rises and vaccines are ultimately developed. By contrast, the GFC was the culmination of more than a decade of built-up imbalances that left a big debt overhang that took a very long time to unwind.

In another well-written research piece, BNY Mellon's Chief Investment Strategist CLICK HERE Jeff Mortimer, reviewed the history of bear markets, which I also discussed in last week's email. The following are key points from Mortimer's analysis:

1. Mortimer mentions that the quick drawdown (i.e. "waterfall") in stocks signals extreme panic, market dislocation, fear of an unforeseen paradigm shift, or a combination of each.
2. Other drawdowns take longer to complete and are typically associated with market or financial excess.
3. Significant drawdowns associated with excess include the tech bubble and subsequent burst of 2002, the Nifty-Fifty bear market of 1974 and the financial crisis of 2008.
4. Each of these drawdowns lasted between one and two years.
5. The U.S. has recovered from EVERY SINGLE bear market it has ever entered.
6. The length of a bear market also provides clues as to how long will take to recover fully from it.
7. Using history as a guide, Mortimer believes the current bear markets will be followed by a quick recovery.
8. We are seeing extraordinary efforts by central banks and governments around the world to ensure that markets keep functioning and that the damage to the world and U.S. economies is mitigated.
9. BNY Mellon believes the most likely case for our economy is a V-shaped recovery.
10. They believe U.S. equity markets will recover before the domestic economy does.

11. They note the dangers of market timing. Going back 20 years, if you stayed fully invested, you earned a 5% annualized return. But, if you were in and out of the market and missed the best 10 single days over those 20 years, your return would be only 1% annualized. If you missed the 30 best days, your return would be ***minus*** 4.0%.

Conclusion

It is interesting to read a variety of smart opinions and prognostications from economists and chief investment strategists. As a wealth manager, it is my job to sift through all of this information and make sense of it for you. Whether we have a V-shaped, U-shaped or L-shaped recovery depends on what I have been saying for weeks--how quickly the infection rate of this virus PEAKS and then flattens.

However, once the virus peaks, we won't exactly be "off to the races." People will remain cautious and vigilant when they leave their homes. We will continue to wear facemasks for a certain period of time. Social distancing and grocery lines will continue. Restaurants will minimize how many diners they serve at one time. Travel will be limited. Sporting events will have limits. Life will be completely different for some time to continue to keep the curve flat.

Enhanced therapies may speed the healing process and a new vaccine may be discovered. But all of this takes time. Still our country as a whole will be cautious coming out of the gate. But, as I've said for weeks, it's a day by day process for all of us. There are a lot of unknowns and it is super easy to be negative. However, it's hope, belief and perseverance that will lift our country out of this crisis and move us to much better days ahead.

Please call or e-mail with any questions.