

"Cup of Joe"

UNCERTAINTY: one of the biggest catalysts to stock market volatility; and it's reared its ugly head once again. As we have written in the past, exogenous events like the Coronavirus have rattled markets recently, and will continue to do so over time. Whether it's missiles from Iran, the SARS epidemic, political shenanigans or fears of a global pandemic, one must not panic, but rather look at the fundamentals through a long-term lens. In this Cup of Joe, we will discuss the most recent market conditions and how we see things moving forward.

I want to begin with an analogy of how I view market volatility. When I was young and on vacation with my family at the beach, some days the weather was lousy - a storm would roll in, it would get windy and the waves were high and ominous. But, as a fearless youngster who only had a week or so to enjoy myself, I'd go swimming anyway. What I learned was this: from a broad perspective, such as viewing the ocean from above, it is SCARY (much like the stock market). Crashing waves, wind, rain, etc. But, as soon as you dunk your head and go under the water, there was an eerie calm. The waves were non-existent, the water was clear, there was no wind, no rain, no dark skies - just the typical ocean and all its inhabitants carrying on with their daily lives. This is how I view the volatility in the markets. On TV, or "above the water", things sometimes look scary! Big RED headlines telling us that the end is near (like big crashing waves telling us the ocean is no place to be). But, if you dunk your head under the water, so to speak, and look at the underlying fundamentals, you will see that good things are happening and it's not as bad as it looks. That's how I view the market today.

So, what is going on? The Coronavirus, or COVID-19, has mysteriously appeared out of Wuhan City, China, and began spreading throughout the world. This virus can cause symptoms likened to the common cold up to more serious respiratory issues, such as pneumonia. It has killed 2,800 people and counting. While this sounds scary, it's always important to put things into perspective. The flu kills 56,000 people a year. We are at 2,800 for this new virus. In retrospect, this doesn't sound so bad. So, why is everyone panicking? We are human beings who act on emotion. And much like the stock market, we do NOT like it when something scary comes along that has an UNCERTAIN outcome. That is what we have now. "A whole lot of uncertainty" We don't have a cure, we don't have a vaccine, we don't have ample methods of detecting how many people are infected or how fast it's spreading. And the virus can remain in a host for up to 14 days undetected, making this very hard to contain. The stock market does not know how long this will last, how much of the world's GDP will be affected, or if the consumer is going to stop going out and spending money. These unknowns are what is causing the fear. I

remember back to a time when I had the FLU Bug. I coughed and ran a fever for about two weeks. I stayed home! Once it subsided, I went back to work. So, what do you think the 85,000 people that contracted the virus in Wuhan city China did after they recovered from the Coronavirus? They went back to work! My point is that this is a time sensitive event. It's not as if the whole world gets sick and never returns to work. It is more of a disruption. SARS lasted some 16 months. If we had a timeframe for a vaccine, a drop in the number of people infected, a drug that could cure this, the uncertainty would dissipate, and things would return to normal. The problem is, we are very early in the process and we don't have any fact-based data. That is what is causing the volatility in the stock market.

What we DO know is this: interest rates are at historic lows, the consumer is strong, oil is under $50/barrel and could go even lower soon. That means you and I are going to pay less at the pump and have more money in our wallets. Before this virus came about, we were in a Goldilocks scenario. Now, because of this outlier, the market has pulled back. In some ways, this is actually very beneficial to quell the euphoria the market was experiencing. As I was telling a client the other day, when the market sells off, that just means good quality stocks go on sale. And with such a huge run up last year, a pullback was in order. While looking at this from an optimist's perspective, the fundamentals are still sound as we continue to monitor the economic indicators. Depending on the severity of the outbreak, the effect on the global supply chain and the uncertainty of how many people will be affected, we want to stress that we are watching the situation closely. And we feel that when the market does recover, it will be a sharp bounce back since it's a time-related shock to the system. But, the really good news that we mentioned in the last email blast is that we just re-balanced your portfolios. Essentially, we took profits from last year and de-risked everyone's portfolios. GREAT TIMING! This is why you have financial advisers. At Chapel Hill, we always remain prudent in our investment decisions and, as Warren Buffet says, "be greedy when others are fearful and fearful when others are greedy". Well, we did just that and it worked out great. Remember, too, that our portfolios were up so big last year that any dip in the markets would just be giving back some of the profits.

As we have in previous market events, we will remain vigilant in not only monitoring the ongoing scenario but keeping you informed with our email blasts. These events are never fun to experience, but with a long-term time horizon and a well-diversified portfolio, brighter skies are ahead.

Other important news and reminders…

*You still have time to fund your IRA's for 2019. And keep in mind, the mortgage rates have dropped to historic lows making this a great time to refinance if you haven't already.

-Joe, Ryan, and the Chapel Hill Investment Team

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