Economic Updates and Outlook



"Cup of Joe"

We want to provide an update on everything that has been happening over the past few weeks. As many of you already know, we are in what many are calling a "natural disaster". We are fighting a virus, COVID-19, something the world has never seen before. The effect on not only the markets, but humanity, is unprecedented. There is no playbook when it comes to an event like this. Our goal is to not only inform our clients of the economic repercussions, but the strategy moving forward regarding your portfolios.

First, it's important to put into context the pace at which everything is occurring. Usually, it takes 5 months or so to enter a bear market of 20% down or more. The market achieved this in less than 20 days. Trying to predict the magnitude or the economic impact is futile considering we have never had this type of an event before. There is no historical data to reference. A brief summary: the global economy is essentially at a standstill. Like a light switch, it's being turned off from room-to-room or sector-by-sector. And we cannot predict the duration because we have no data from the testing (soon). We still don't have adequate testing to assess how many people have it or have had the virus and fully recovered. And we don't know how long it will last. Therefore, making investment decisions without the proper data is like throwing darts in the dark. And what's making this situation even worse is that it's eliciting emotional responses based on the impact to our money and our health. As your financial advisers, we know that panic is not an investment strategy. At peak crisis, you **CANNOT** let emotions take over or you risk making an already bad situation worse. Let's use this simple example: Let's say your portfolio is down 20%. FIRST, you did not LOSE that money. It's just currently at that level. (Remember, you never lose until you sell). Next, if you were to let your emotions take over and you do sell, what does this outcome look like? You are essentially selling to make yourself feel better - to "stop the bleeding". But what happens when the market rebounds? Because it will! Well, your portfolio losses essentially double because you have now missed the rebound. And for anyone watching the markets closely, you've just witnessed 10% swings in the market (both up and down) on any given day. So, what if you pull out and the market rebounds 10%, then 5% the next day? Your portfolio just went from down 20% to down 35%. The bottom line is that there is no way to time the stock market! This is our stance. To try and draw parallels to 2008 wouldn't be accurate either. It was man-made, not biological. 2008 was a complete financial collapse that you could see coming….and we did. How? Because there was relevant economic data to assess and react. This time around, we are facing an unknown. An exogenous event. A force of mother nature that is only now producing raw data. So, we are doing what's prudent and remaining calm. There will be light at the end of the tunnel. And whatever you do, keep investing in your 401k and pension plans**. DO NOT TRY TO PULL THE FUNDS OUT OF YOUR 401K SINCE EACH PLAN HAS ITS OWN RULES THAT MAY PREVENT OR DELAY YOUR ABILITY TO RE-ENTER! *ALSO, WE ARE ADVISING CLIENTS TO RE-BALANCE YOUR 401KS, IF POSSIBLE.**

Our views moving forward are as follows: This will be a short-term recessionary event. And, remember, the stock market is forward-looking. We will get to a point where the new cases of the virus will taper off, investors will start to realize that humanity will go back outside, we will go back to work, we will go to concerts and sporting events again. And the light switch will turn back on. Recent data from economists out today have showed a zero GDP reading for Q1, -8% for Q2, +3.8% Q3 and +3.9% for Q4. So, how are the Fed and the Government assisting the markets? By lowering interest rates to help businesses and homeowners, by injecting incredible amounts of monetary stimulus into the economy and fiscal stimulus is on the way. And to harken back to our previous “Cup of Joe” emails, there is no better place to garner a return on your money than the stock market. **Remember that!** How long can people sit in cash? This may take months, but it won’t take years. And when this occurs, we believe the market will rocket higher and begin what we believe will be the next bull market for years to come. But in the near-term, it’s important to remain calm and make prudent decisions, not only with your money but with your health and the health of others. We will all get through this together. And when we look back on this time, we feel this may be one of the best times in history to invest. Many of our clients are already making plans to take advantage of this pullback. We will also be looking to harvest tax losses for 2020 and finding replacement holdings that may perform better than others when the market rebounds.

PLEASE NOTE, we will not be having in-person meetings at the office to do our part with social distancing. This will last AT LEAST 2 weeks. We ARE fully operational via phone and technology and have been in contact with clients daily. STAY SAFE!

Warren Buffet: "Be greedy when people are fearful and be fearful when people are greedy!"

-Joe, Ryan, and the Chapel Hill Investment Team

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