

Friday, February 28, 2020

# THE CORONAVIRUS & FINANCIAL MARKETS: ADVICE FOR CLIENTS

A spike in new coronavirus cases outside of China, especially in Italy and South Korea, has put investors on edge. In addition, the media attention on the coronavirus has also led to a rapidly escalating number of online coronavirus scams. We wanted to provide you with our thoughts about the market, as well as some tips on how to avoid the scams that are popping up.

## THIS WEEK'S MARKET

This week's coronavirus-fueled market sell-off drove global equity markets to their lowest levels since early 2019, with US equity markets performing significantly worse than non-US equity markets.

The uncertainty around the rapid spread of coronavirus and the corresponding decline in market values are certainly concerning. But it's in times like these that it's prudent to step back, catch our breath, and evaluate what we know and don't know.

## SPATIAL DISORIENTATION AND MARKET CORRECTIONS

We have communicated in the past that the best action to take during times like these is to avoid reacting from emotion and to stay the course with your investment strategy based on your long-term goals. It's tempting to think we need to do something different, to react in response to what we see around us, but sticking with the financial science and separating facts from fiction will help see you through the storm. This is not unlike the stories we hear of pilots experiencing "spatial disorientation", a phenomenon that occurs when pilots incorrectly interpret the plane's orientation relative to the Earth's horizon.

Imagine piloting an aircraft with a routine, well-designed flight plan. We board the plane feeling great about our plan, full of confidence. However, during the flight we begin to experience some turbulence and find ourselves unexpectedly surrounded by clouds. We're suddenly unable to locate the horizon. Our instincts tell us, with conviction, that we're in a right wing down configuration turning away from our destination. You're tempted to grab the controls to level the wings, but the plane's finely tuned instruments indicate you're flying level towards your intended destination.

Similar to clouds and turbulence during flight, market corrections are a natural part of investing. Volumes of real world and academic evidence conclusively prove that investors who grab the controls during such times suffer tragic consequences. We need to trust our instruments—in our case, that's our investment philosophy and disciplined approach to global diversification. Changing those now, when we need them most, would be akin to trusting instinct and emotion over science and discipline. Don't grab the controls. If we stick to the flight plan and trust our instruments, we have no doubt we'll arrive safely at our intended destination—Economic Freedom™.

## ADVICE FOR CLIENTS

First, don't panic. Clients should be careful not to make investment decisions based on hype or the unknown; investing is always about the future, which is fundamentally unknowable. And we know that returns suffer significantly when investors make long-term investments based on short-term information. Breathe.

Second, clients should remain globally diversified with a healthy allocation to high quality fixed income. Diversification has already paid big dividends this week in terms of downside protection. And diversified portfolios are, fundamentally, defensive portfolios. Stick with your financial plan and stay the course.

Finally, risk and return are intricately related. We can't tell you when the market will turn or by how much, but nearly a century of financial theory and real-world experience tell us that today's risk will likely be compensated with positive returns for investors.

## EVERY CRISIS HAS AN END

In earlier times, human civilization lacked the communication networks, technology, and institutions to effectively combat global pandemics. But today human civilization is better positioned than at any point in its history to deal with global health crises. The World Health Organization (WHO), the United States Center for Disease Control (CDC), global healthcare companies, world class research universities, and many others are working in tandem to combat the virus. In fact, Gilead has already announced it will partner with the University of Nebraska to begin human trials on a new vaccine.

Crises come and go. Yes, they're disconcerting. Yes, they rattle our collective nerves. But it is also true that they all have a beginning, a middle, and an end. This crisis too shall pass. Don't let short-term crises derail long-term plans. Stick to your flight plan and don't forget to trust your instruments.

## CORONAVIRUS SCAMS ON THE RISE

Common scams that are starting to appear include websites selling fake products, as well as emails, texts, and social media posts that are used to steal money and personal information. The emails and posts may be promoting awareness and prevention tips along with phony information about cases in communities. They may also ask for donations to victims, provide advice on unproven treatments, or contain damaging attachments. Please view the [attached](#) for tips on how to avoid such scams.

Thank you for your continued trust and confidence. As always, please reach out to your advisor if you have any questions.



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