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TRANSITIONS

IMPACT OF THE CORONAVIRUS

Some perspective is needed on this market decline. News reporters kept mentioning this market plunge is the fastest on record, taking only 17 days to drop 20%. Given a moment of reflection, nearly every seasoned investor will recognize these reporters chose great headlines over facts. With the benefit of many decades of investing experience, my reporting is this market environment feels much the same as October 22nd, 1987, a day when the DJIA declined 22.6% in just one day. The main difference between 1987 and today is that this similar sized market correction has occurred over a longer time period.

What is different today? Our economy was running strong just two months ago and now everything seems to have stopped. During my recent conference call with the head of Immunization and Respiratory Diseases at the CDC in Atlanta, she mentioned this Coronavirus was seeded into the United States in multiple places, it is very transmittable, and nobody has immunity. Knowing these core facts, to avoid infecting everyone, shutting down much of our economy to achieve self-isolation seems necessary. However, it is important to recognize this shutdown was not because of any economic problems or some financial crisis that was common in past market corrections. This correction is a Black Swan Event of a public health crisis, where our government placed a temporary stop on our economy. By design, this type of shutdown will mean we will experience a few quarters of a large decline in our GDP. Unemployment will also spike upwards where we could see as much as a 20% unemployment rate.

There will be plenty of opportunities to generate returns during this market correction. With our conservative investment philosophy, we do not want to take unnecessary risks. Investors who began investing after 2010 are used to quick "V" shaped recoveries off a bottom, instead of a more probable "Nike Swoosh" shaped recovery. This time we seem to be reverting back to how normal corrections and/or recessions work in the market. In the 2002 to 2003 markets, after a low was set in October 2002, another low occurred in March 2003 before the markets recovered. And in

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the 2008 to 2009 markets, after the low in November 2008, a second bottom occurred in March 2009 before the markets recovered.

Most veteran market professionals expect the markets to retest the recent lows, not because of anything to do with the virus, but more because this is the way markets form bottoms. A respected technical analyst that I have followed for decades aptly said the market bottom will occur not from smart buying but rather from an absence of sellers. One thing is certain, over the near term, the markets will be volatile to the degree where swings of 5% are meaningless.

The real question to ponder is just how we restart our economy and move employees from self-isolation to their workplaces in a reasonably safe manner. Two real breakthroughs are needed. One will be a therapeutic drug to treat the virus illness. The second will be a vaccine to inoculate employees from getting this virus. When an employee tests positive for the virus, they will be cured with a therapeutic drug. Once employees get their coronavirus vaccine shot, then this disease moves from stopping our economy to having the negligible impact of the common flu on our economy.

Given the United States now has very competent people working in both the private and public sectors for cures, I am optimistic we will return to the economic strength we were enjoying in recent months. There will be time delays, mistakes will be made, and speed bumps incurred as we rush through therapeutic drugs and vaccines, but this is to be expected as we focus on these needed drugs to restart our economy again. Stay safe!

Written by: **Herb Diamant**, President and Senior Portfolio Manager
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