Fear and Panic are Hazardous to Your Health & Wealth: What to Do?

3/23/20 – Previous Close: DJIA 19,174; S&P 500 2305

Let's face it: The fear and panic out there is so thick you can cut it with a knife! The purpose of this longer-than-usual letter is to lay out some facts, share some history, and offer my opinion about what folks should do.

COVID-19 (the latest coronavirus) has spread like wildfire affecting everyone to varying degrees – physically, emotionally, psychologically, and yes, financially. Who among us had even heard the terms "social distancing" and "shelter in place" before the past month? This has happened fast! Speculation runs wild as to how many will be infected and how many will ultimately die from COVID-19. Just today I have read estimates as low as 52,000 (probably too low) to 1.7 million (probably too high). As of this writing (Sunday afternoon), Johns Hopkins University reports that the US has 33,276 confirmed cases and 417 deaths. I'm sure those numbers will be much higher by the time you read this. Two pieces of history are likely instructive. First is the largest virus outbreak (pandemic) since viruses were understood and antibiotics were created to treat secondary infections such as pneumonia. (These criteria rule out the Spanish flu of 1918 which occurred before viruses and antibiotics were discovered, making that pandemic vastly different from anything since.) Thus, the largest pandemic in the US has been the Asian flu of 1957-1958 which claimed the lives of 116,000 Americans. Adjusted for population growth that equates to approximately 220,000 deaths today. While some are using the term "unprecedented," I would add "That may prove to be the case, but maybe not." The second piece of history is this: Uncertainty about the current disease has ample precedent. At the outset of the H1N1 swine flu outbreak in 2009, the President's Council of Advisors on Science and Technology predicted that the virus would result in 900,000 to 1.8 million hospitalizations and 30,000 to 90,000 deaths. Actual figures a year later were found to be 274,000 hospitalizations and 12,000 deaths. Let's all pray for a similar "miss" as in 2009!

Fortunately, the US recovered from those two horrible outbreaks – which leads me to this great quote: "***Just because it's unprecedented doesn't mean it's unrecoverable.***" The horrific acts of 9/11 and Pearl Harbor were certainly unprecedented – and invoked massive nation-wide fear and panic, but we did recover. Every incident of mass fear and panic is different in its cause, but at least so far, America has eventually recovered. I believe "this too shall pass" and our nation will be stronger on the other side.

Clearly the uncertainty, fear, panic, chaos, and economic disruption of COVID-19 have had a devastating impact on world stock markets. In my 34 years of advising investors I have seen many, many things – including three sell-offs <u>worse</u> than what we have seen in terms of magnitude of decline. What I have not seen before is the sheer speed of this decline. In only 16 trading days, the DJIA & S&P 500 fell from all-time highs into a bear market (using -20% as that measure). That has certainly never happened in my career and perhaps never at all. Although markets enjoyed tremendous gains in 2019, as of this writing, the S&P 500 is down 28.3% for

2020. Other areas have fared even worse. Small-cap stocks (Russell 2000 index) have declined 39.0% and international stocks (EAFE index) have fallen 31.3%. That is true financial carnage. I can assure you that when investors review their next statements for the end of March, there will be shock, awe, and <u>nausea</u> as percentages translate into dollars of decline. Is it unprecedented? In swiftness, yes; but in magnitude of decline, no. Remember the quote: "***Just because it's unprecedented doesn't mean it's unrecoverable.***"

So, what does the future hold for the stock market? While no one can say for sure, history is once again helpful. During the aforementioned Asian flu, the stock market declined 11% in 1957 but soared 43% in 1958 as the flu was contained. After 9/11 the markets continued their decline as fear gripped our country for months (*Will there be other attacks? Is it safe to go out in public places? Will airlines and other industries disappear?* etc.) **Historical fact:** From 9/10/2001 (the day before the attacks) through Friday night (3/20/2020) – i.e. including the market fall that followed 9/11 <u>and</u> the horrific decline of the past month – the S&P 500 has had a cumulative total return of 206% (6.22%/yr annualized). Over the years I have consistently "preached" that no one should ever be a "one-year investor" and that <u>everyone</u> should be (at least) a five-year investor. With that in mind, note that even after this carnage, the S&P 500 has returned a cumulative 21.1% in exactly five years (which is 3.91%/yr). Better yet, over the past 10 years the average annual return has still been 9.36%.

Yes, I think the US economy <u>will</u> see a very steep decline in GDP over the next few months. The stock market seems to have already priced most of that in with its ultra-swift decline. Has the market hit the bottom? Who knows?! It may very well get worse before it gets better. Based on my 34 years of observing and learning from treacherous markets, I have learned many valuable lessons. One is that markets nearly always turn up <u>before</u> the bad news ends. I can't explain that – only that it's the way it works. Based on history, I strongly believe that America will bounce back sooner or later – both the economy and the stock market. So, what is my bottom-line advice? Several thoughts:

1. As best as you are able, don't "be forced to sell at bad prices" – especially by your emotions.
2. When it comes to withdrawing money, my long-standing advice has been *"If you need the money, take the money; if you don't need the money, don't take the money."* i.e. Don't withdraw due to fear or greed, only due to true need. If you can cut back on withdrawals, now is the time to do so.
3. Heed the advice of legendary investor, Warren Buffett: ***"Be fearful when others are greedy; be greedy when others are fearful."*** He's been a wise investor for many, many years.
4. Remember and abide by **Herb's Three Rules of Equity Investing**: "*Own quality, be diversified, invest in patience."* (You didn't think I'd write a letter without that, did you?!)
5. For your overall personal health, do NOT let fear consume you. It will wreak havoc on your body, mind, and soul. Instead, meditate on Isaiah 41:10. It will do you good.

"***Just because it's unprecedented doesn't mean it's unrecoverable.***"

We at H. L. Ormond and Company stand ready to assist our clients in any way possible. Although we cannot accommodate in-person visits at this time, we are ready and willing to discuss matters by phone, should that be necessary. We're all in this together – and we'll all get through this together! Now, go wash your hands for 20 seconds!

The S&P 500 is an unmanaged index of 500 widely held stocks that is generally considered representative of the U.S. stock market. The Dow Jones Industrial Average (DJIA), commonly known as "The Dow," is an index representing 30 stocks of companies maintained and reviewed by the editors of the Wall Street Journal. The MSCI EAFE (Europe, Australasia, and Far East) is a free float-adjusted market capitalization index that is designed to measure developed market equity performance, excluding the United States & Canada. The EAFE consists of the country indices of 22 developed nations. The Russell 2000 Index measures the performance of the 2,000 smallest companies in the Russell 3000 Index, which represent approximately 8% of the total market capitalization of the Russell 3000 Index.

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