STEVE ROBBINS, CFP®
WEALTH MANAGEMENT FOR A FLOURISHING RETIREMENT

Coronavirus & Market Volatility Update

March 6, 2020

On Thursday, March 5, 2020, the Dow fell 969 points – just the latest in a week of wild swings.[1] While monitoring the situation, a headline caught my eye:

"Dow tumbles nearly 1,000 points again, because stocks can't figure out coronavirus."[2]

To me, this headline illustrates what the media often gets wrong about investing. But before we dive into that, let's review how the coronavirus (COVID-19) is impacting the markets.

A wild week

In terms of pure numbers, the first week of March has been one of the wildest in recent memory. In fact, the Dow had two of its best days *ever* on March 2nd and 4th…but two of its worst days ever on March 3rd and 5th.[2] Writers have been comparing the stock market to a rollercoaster for decades, but this takes the analogy to a whole new level.

It's not hard to understand why. The coronavirus outbreak – which as of this writing has spread to over 100,000 people, with over 3,400 fatalities – is putting a major crimp on business activities around the world.[3] Global supply chains, which are the networks between a company and its suppliers, have been dramatically affected. As a result, some of the world's largest corporations have warned shareholders that they may not be able to reach their quarterly profit estimates. Industries like travel and transportation, which depend on the movement of people and goods, have seen business plummet. This in turn has impacted the energy industry, as less travel and transportation mean less demand for oil.

So. Coronavirus is definitely taking a toll on global markets. The question economists are struggling to answer is, "How will coronavirus affect the global *economy?"*

Here in the United States, consumer spending is one of the main drivers of our economy. There have been over two-hundred confirmed cases of COVID-19 thus far. That's a small number in the grand scheme of things. Economists' concern, though, is that the virus may spread, causing people to stay home and consumer spending to slow dramatically. Nations with far more cases, like China, South Korea, and Italy, are already seeing slowdowns. The worst-case scenario, according to some analysts, is that economic growth for 2020 could be cut in half if the virus continues to spread.[4] Should that happen, some nations may well experience a recession.

The Federal Reserve responds

For weeks, analysts expected the Federal Reserve would act at some point. That's exactly what they did on Tuesday, March 3rd, when the Fed announced they would cut interest rates by 0.5%.[5] The Fed figured lower interest rates would prompt more spending and lending. Think of it as giving the economy a dose of Vitamin C.

But the markets fell anyway.

There are a few reasons for this. While a rate cut was expected, the Fed acted much sooner than many anticipated. So, rather than prompt enthusiasm, it instead prompted concern. "If the Fed feels like they have to cut rates to keep the economy going," the thinking goes, "what does that say about the economy?"

Then, too, there's only so much that lower interest rates can actually do. To be frank, the Fed has already spent most of its ammunition on this front. Interest rates have been low for *years* and have only gotten lower lately. Furthermore, interest rates can't fix global supply chains, or replace lost business. They won't fill seats on airlines or keep the machinery running in hard-hit factories. Nor can they stop coronavirus from spreading.

Viruses are no respecter of borders or laws; they're certainly no respecter of lower interest rates.

Headline-driven investing

Just typing those words makes me shudder! Headlines are one of the *last* things that should drive investing, but that's where we are right now. The proof is in what happened on Wednesday, March 4th.

The night before was Super Tuesday – when fourteen states held presidential primaries. Joe Biden won most of these states, which buoyed investors, as Biden is seen as more centrist than his main opponent, Bernie Sanders.

What connection does Joe Biden winning have on stocks? None right now. It doesn't change anything about coronavirus. It won't magically increase economic activity. The election itself isn't for another eight months! And yet, the markets rose over 1,000 points on the back of that headline…before giving most of it back the very next day when the headlines changed.[6]

Which leads me back to the headline I showed you at the beginning of this letter.

"Dow tumbles nearly 1,000 points again, because stocks can't figure out coronavirus."

Look at those words again: *Stocks can't figure out coronavirus.* Stocks don't have minds of their own, of course, so my guess is the headline really meant *investors* can't figure out coronavirus.

But here's the thing. For investors, there's not much to figure out.

Economists, analysts, and pundits try to divine how today's news will affect tomorrow. They create projections to help banks, businesses, and politicians make decisions. It's a hard job, there's no denying.

But no investor can *accurately* predict how bad the virus will or won't be. I've seen some commentators make claims about vaccines, or how warm weather will stop the virus in its tracks, or any of a dozen other things. It's all speculation. The fact is, no one knows how long this epidemic will last, or how far it will spread. No one knows who will win the election in November. No one knows the future! We can make educated guesses, but we can't *know* with any certainty. So of *course* investors can't "figure out" coronavirus.

Even if we could, the situation would likely change the next day!

To me, the problem with the headline above is that it implies investors *should* be trying to "figure it out." But if we could, there would never be any uncertainty. Investing would become as predictable as grocery shopping. But investing doesn't work like that. That's why we don't make investment decisions based on predictions. It's why, during times of market volatility, we don't chase our own tail, trying to time the markets or make risky bets based on what we *guess* might happen.

In other words, we don't need to "figure out" coronavirus. Let's leave that to the scientists. Instead, all we need to do is largely what we've already done! And that is:

1. Determine what kind of investment return you need to reach *your* goals, and then choose high-quality investments based on the principles of supply and demand. When demand outpaces

supply, buyers are in control, and prices are likely to move upward. When supply is greater than demand, sellers are in control, and prices tend to go down. That's why we don't buy or sell based on predictions or stories. We look at what is actually happening by examining trends.

2. When the market is trending upward, we focus on growing your money. When the market trends down, we focus on preserving it. This is done by putting strict rules in place that govern your investments. For example, if an investment moves below a predetermined exit point, we sell. If necessary, we can move entirely to cash if that's what it takes to preserve your principal.*

In the short term, coronavirus will probably continue to impact the markets. The global economy will continue having symptoms. But we don't need to guess what the effects will be anymore than we need to guess what the weather will be like ninety days from now. Instead, we determine the rules we need to follow to help you reach your goals, and then follow those rules to the letter. To me, it's comforting to know that we *don't* need a crystal ball to be successful long-term investors. We don't need to be virus experts. All we need to be is disciplined, informed, and prudent.

In the meantime, I expect volatility will continue. By the time you read these words, the headlines will have changed again. That means the markets will have probably *swung* again. That's okay. Because while volatility is never fun, we don't need to "figure it out." We've already done that.

One more thing. While I'm encouraging you to not stress over daily headlines or market swings, I understand that's sometimes easier said than done. After all, it's your money! So, if you have *any* questions or concerns about your portfolio, please let me know. My team and I will always be here for you.

-Steve Robbins, CFP®

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*Note that individual situations can vary; therefore, the information presented here should only be relied upon when coordinated with individual professional advice. Indexes and benchmarks used in this report are unmanaged and cannot be invested in directly. The S&P 500 is an index representing 500 of the largest companies in the U.S. and is generally representative of the stock market as a whole. The Dow Jones Industrial Average is a price-weighted index representing 30 large, publicly owned companies based in the United States. No investment strategy, including asset allocation and diversification can guarantee a profit or protect against loss in periods of declining values. Technical analysis is just one form of analysis. You may also want to consider quantitative and fundamental analysis before making any investment decisions. Although believed to be reliable, Steve Robbins, Inc. cannot guarantee the accuracy of all information represented by third-party providers wihin this article. Past performance is not indicative of future results and there is no assurance that any forecasts mentioned herein will be attained.

SOURCES:

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