STEVE ROBBINS, CFP®
WEALTH MANAGEMENT FOR A FLOURISHING RETIREMENT

Coronavirus Market Update

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Imagine this:

You're on the highway, drumming your fingers along the steering wheel and humming to the music on your radio when suddenly you look at the speedometer. Woah! You're driving 83 miles per hour – and the speed limit is 65. Hoping the highway patrol isn't around to see, you immediately press the brakes. Has that ever happened to you? (Yeah, me neither. Wink-wink.)

Well, on Thursday, June 11, that's *exactly* what happened to the markets.

The Dow plunged over 1800 points. The S&P 500 fell by almost 6%.[1] It's the largest selloff since April. It's also a sign that investors have realized the markets may have been climbing too fast – well beyond the speed limit the economy has set.

Here's what I mean. Remember the brief-but-brutal bear market in March? Thanks to the coronavirus, the S&P fell from 3,386 points on February 19 to 2,237 just over a month later.[2] What started as anxiety over disrupted supply lines morphed into full-blown terror over the prospect of skyrocketing infections, bankruptcies, and unemployment. It was one of the fastest bear markets in history.

But in its wake came one of the fastest *bull* markets in history. From March 23 to April 8, the S&P rose roughly 22%.[2] And for the most part, the markets have kept climbing. By June 8, the S&P had climbed *44%* in only two-and-a-half months![2] It was an absolutely stunning turnaround.

But was the turnaround *real*? That's the question my clients have all been asking me. Because as the markets climbed, the economy fell.

As you know, we're in a historic recession right now. Since March, over 44 million people have filed unemployment claims.[3] The jobless rate currently sits at 13.3%.[4] (Although the Department of Labor has admitted that the real numbers are even worse than that. Thanks to a "misclassification error", previous months' rates should have been several points higher.[4]) And yet, the markets surged ahead. What gives?

What gives is that the rally was largely driven by two things: hope and fear. If that seems contradictory, bear with me. It will make sense in a moment.

The "hope" part of the equation was simple: After weeks of scary headlines, investors began to acclimatize to the coronavirus. When that happened, hope took over. Hope that government stimulus would work. Hope that jobs would return. Hopes that "the curve" would flatten and the pandemic brought under control. Hope that a vaccine would be discovered in record time. Hope that the economy would recover in a classic "V-shape", meaning it would be rebound *out* of a recession as quickly as it fell *into* one.

Once hope established itself, fear quickly followed – the fear of missing out. FOMO, as it's popularly known, is a completely normal emotion, but it's also the bane of many a rational investor. The more the markets climbed, the more investors feared missing out on a historic rally, and all the on-paper profits that come with it. Even some companies that recently declared bankruptcy have seen their stock price rise nearly 50%![5]

To be clear, a market rally was not really a surprise. History tells us that the stock market usually recovers fairly quickly after a pandemic.[6] Furthermore, because the markets move largely on what investors expect will happen *in the future* – as opposed to what's only happening right now – the bad economic data we saw in April and May was already priced in. If investors know we are in a recession but expect that recession to end quickly, a market rally is a natural result.

But now we return to my "speeding" analogy from the beginning of this letter. A rally is all well and good, but the higher stock prices go, the further they get from their underlying **fundamentals**. In investing, fundamentals are what you use to value a company or security. Earnings, revenue, assets, liabilities – the stronger these are, the more highly a company is likely to be valued. The economy has its own fundamentals, too. (Think unemployment, GDP growth rate, inflation, etc.) Right now, our economy's fundamentals are not particularly strong. By extension, many companies' fundamentals aren't particularly strong right now, either. While my team and I don't rely on fundamental analysis to choose investments – we use *technical* analysis instead – when the markets get so far ahead of their fundamentals, it's like a driver who suddenly realizes he's speeding way beyond the limit.

So, what prompted investors to look at their speedometer? Several things. First is the simple realization that, despite the warmer weather and the easing of quarantine restrictions, COVID-19 is not going away anytime soon. I know – you're probably as sick of hearing about the pandemic as I am. But the fact remains that several states are seeing a dramatic increase in cases. In fact, fourteen states "have recorded their worst week yet for new coronavirus infections."[7] Hospitalizations are also on the rise.

Second is a sobering report from the Federal Reserve. Ever since the financial crisis, our nation's central bank has taken an increasingly important role in propping up the economy. So, when the Federal Reserve speaks, people listen. On Wednesday, chairman Jerome Powell warned that interest rates would probably be kept near zero for years to come – and that by the end of the year, the unemployment rate would still be around 10%.[8] On the heels of this statement came the news that, while the May job report was better than expected, and that jobless claims have dropped 10 weeks in a row, 1.5 million more Americans filed claims in the last week alone.[3]

Essentially, the markets woke up Thursday to a healthy dose of reality. A v-shaped recovery is *not* guaranteed. The story is *not* over. Investors looked at their dashboard and realized they were speeding.

So, what does this all mean for us? Is another market correction due? Or will the markets simply take a breather, and then keep climbing?

You can probably guess my answer: There's no way to know for certain. You see, trying to predict what the markets will do means we have to predict exactly what the *virus* will do. And no one – not even the most experienced epidemiologist or grizzled virologist – can do that. So, as investors, it doesn't make any sense to try. It just doesn't work! That's why we don't invest using economic predictions, or companies' fundamentals, or just holding onto everything we own and hoping our portfolio will eventually go up.

The fact of the matter is that the markets are going to leap ahead and fall behind like they always do. As your financial advisor, I don't want you to participate in that kind of rollercoaster ride. Rollercoasters *always* end where they started. Buy-and-hold investing tends to leave you where you started, too! (Remember, after all was said and done, the S&P 500 finished 2013 almost exactly where it finished in 2000.[2] That's thirteen years of bull markets and bear markets, just to go around in circles.) That's why we're not going to invest based on *hope* for a vaccine or *hope* for a swift recovery. Instead, we'll continue to use indicators like relative strength, supply and demand, and trendlines. We'll continue to follow the rules we've put in place: Getting in the markets when they trend above a certain point and getting out when they trend *below* a certain point.

It helped us avoid the worst of March's market crash. It will help us in the future, too.

So, rather than thinking of investing as a game of predictions, think of it like driving your car. Whenever you drive somewhere, you probably have a decent idea of when you'll arrive. But you can't predict the traffic lights you'll hit along the way. You can't predict any accidents you'll encounter, or whether you'll get a flat tire, or be forced to take an entirely different route.

Instead, experienced drivers know that, whether you're going on a long road trip or just your morning commute, you should always:

- Plan ahead and familiarize yourself with the route
- Leave early and give yourself plenty of time
- Buckle your seat belt
- Keep your eyes on the road ahead and not on your phone
- Be mentally prepared to change your route or even sit in traffic for a bit
- Keep a spare tire handy

When you do that, you're giving yourself the best chance of arriving where you need to be, when you need to be there. You're *preparing*, not predicting.

This is all true of investing for your financial goals. We cannot predict exactly whether Thursday's drop was the start of a market correction or just a blip. That's why we must remain prepared for more periods of volatility over the coming months. More good weeks and bad days. We should be prepared to speed up or hit the brakes depending on the road conditions.

The good news is that, with our investment strategy, we *have* planned ahead. We've given ourselves plenty of time to work toward your goals. We've determined how to stay safe on the journey. Now, we just need to keep our eyes on the road ahead and not get distracted by the daily swings of the market that we see on our phones. If necessary, we'll change routes or sit tight for a little while. But we'll keep moving forward. Not too fast, and not too slow – but at the speed that makes the most sense for *you.*

We continue to live in an uncertain time. Investing during times of uncertainty can be stressful. But we made it through the market crash in March. If extreme volatility returns, we'll make it through that, too. Always remember that you have a team in place who are constantly monitoring the markets, trying to find the best route to your financial destination. On the road of life, you're never alone.

As always, please let my team and I know if you have any questions or concerns. In the meantime, tune out the media…and enjoy your summer!

-STEVE ROBBINS, CFP®

Sources:

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