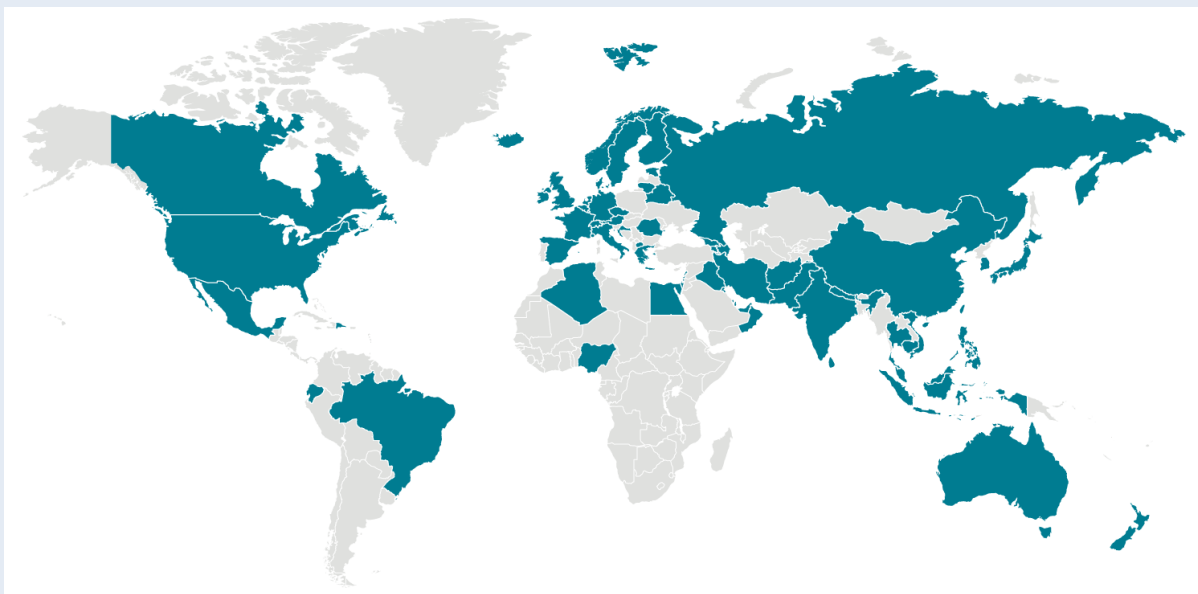




## Coronavirus Fears Spark Selloff

*-J. Kevin Meaders, J.D. \*, CFP®, ChFC, CLU*

**March, 2020**— Well, this is the first letter I've written in almost two years that didn't begin with the title "Preparing for the Correction." I think it's fair to say that we are now in the midst of it. You never know what will spark a correction, but clearly this time it is the coronavirus that is all over the news. And indeed, all over the world.



There is a feeling that the situation will get worse before it gets better. Certainly, every day that goes by reveals more cases. According to the World Health Organization, there are now (as of March 1, 2020) more than 87,000 cases worldwide, affecting more than 58 countries.<sup>1</sup>

In the United States, there are (as of March 1, 2020) at least 48 cases that have repatriated. Only three of those came by way of Wuhan; all the rest were on the Diamond Princess Cruise Ship.<sup>2</sup> So far, cases have been reported in ten states: Arizona, California, Florida, Illinois, Massachusetts, New York, Oregon, Rhode Island, Washington, and Wisconsin.

As I began writing this paragraph (March 2, 2020), the Dow Jones Industrial Average was up more than 800 points after a dreadful week last week, of which you no doubt heard.

<sup>1</sup> [https://www.who.int/docs/default-source/coronaviruse/situation-reports/20200301-sitrep-41-covid-19.pdf?sfvrsn=6768306d\\_2](https://www.who.int/docs/default-source/coronaviruse/situation-reports/20200301-sitrep-41-covid-19.pdf?sfvrsn=6768306d_2)

<sup>2</sup> <https://www.cdc.gov/coronavirus/2019-ncov/cases-in-us.html>

As news breaks from the Seattle area at about 2 pm, more deaths are confirmed, bringing the total deaths in the U.S. so far up to six.<sup>3</sup> In response, the Dow shed 300 points almost immediately. Clearly, the market's response to the news is negative, and one gets the feeling that if a cure were discovered tomorrow, the market would take off.

And maybe there will be – let's hope. Surely, all kinds of pharmaceutical companies and conglomerates as well as graduate schools at the most prestigious universities around the globe are working feverishly on a cure and a vaccine. But so far, nada.

Our view at Magellan is to take the cautious stance. This virus, though it does not seem to result in a great number of deaths per infections, certainly has traveled the globe in just a matter of weeks. It seems to have a delayed symptomatic manifestation which allows it to spread exponentially undetected, almost as if it were designed that way. Additionally, one gets the suspicious feeling that China is not telling us everything. Communist regimes rarely do.

Unfortunately, according to the CDC, this may just be the beginning.

The potential public health threat posed by COVID-19 is very high, to the United States and globally. At this time, however, most people in the United States will have little immediate risk of exposure to this virus. This virus is NOT currently spreading widely in the United States. However, it is important to note that current global circumstances suggest it is likely that this virus will cause a pandemic.<sup>4</sup>

Indeed, more breaking news now from right here in Atlanta—two confirmed cases!<sup>5</sup> And for every confirmed case, it is reasonable to believe that more cases are unconfirmed.

We need to be prepared for the entire country to contract cases, every state and every city.

From an economic point of view, there is certainly going to be a global strain. In economics, the coronavirus world pandemic is what we call a "Black Swan" – something you didn't know existed, didn't see coming, couldn't have seen coming, and yet here it is.

These events tend to demand liquidity, and already the Federal Reserve has, in a surprising and very uncommon move, lowered the Fed Funds rate by 50 basis points—or ½ of 1%. The market immediately reacted by moving into positive territory, but already by 2 pm is down 700 points. The market play by play is not helpful, nor is watching the news. The only thing I know for sure is that by the time you receive this, the facts will have changed.

One piece of news that would otherwise be frontline headline news is the fact that Turkey has shot down three Syrian planes in as many days, following the killing of 34 Turkish soldiers in Idlib.<sup>6</sup> This is a serious escalation of hostilities between these two Russian puppets. I imagine Putin will eventually put an end to it. In the meantime, Turkey has opened her borders to middle east immigrates, flooding Europe and angering EU leaders.

<sup>3</sup> <https://www.cnn.com/2020/03/02/seattle-area-officials-report-3-new-coronavirus-deaths-bringing-us-total-to-5.html>

<sup>4</sup> <https://www.cdc.gov/coronavirus/2019-ncov/summary.html#risk-assessment>

<sup>5</sup> <https://www.ajc.com/blog/politics/kemp-expected-address-coronavirus-late-night-press-conference/VqbHGt7Z0p8U9KTx6bCIJM/>

<sup>6</sup> <https://www.reuters.com/article/us-syria-security-toll/at-least-34-turkish-soldiers-killed-in-air-strikes-in-syrias-idlib-syrian-observatory-idUSKCN20L32S>

As you know, we were largely already prepared for a correction. (See my last letter of December 2019, [Preparing for the Correction, Part VII \(Six Signs of Possible Peril\)](https://www.magellanplanning.com/newsletters) at <https://www.magellanplanning.com/newsletters>)

For our clients, we took action last year, selling equities across the board, and took shelter in Treasuries. Here is a look at our clients' single largest position:



Notice the last little whip at the end there since February. Treasury prices tend to act inversely to stock prices, so for our clients, their Treasury positions have performed quite well. Our longer-term Treasuries have done even better, since investors look to Treasuries for safety.

Stock markets hate the unknown and we are certainly facing several unknowns. We are already hearing about interruptions in supply chains across several industries. This will surely affect profits and earnings, and by extension, stock prices. We don't think the market has priced this anomaly in yet, mainly because everything is conjecture at this point. We're about to see how immensely we depend on China for everyday things.

Looking into the near future, it is impossible to tell how far this virus will spread and how long it will linger. Nor do we know the extent of panic that might ensue when all the schools close and a general quarantine is issued. We certainly hope not, but we have to be prepared for that.

In any event, I am quite astounded at how calm everyone has been. This tells me that we have smart clients that are well educated and have seen this dance before – though maybe not in this coronavirus iteration. Save some unforeseen fortunate event, the situation will almost certainly get worse.

If stocks continue to topple, a buying opportunity may present itself. But before we do that, the numbers need to look a lot better.

In the meantime, follow the advice of the CDC which you can find at [CDC.gov](https://www.cdc.gov). They have a special section dedicated to the pandemic right there on their home page.

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## About J. Kevin Meaders

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Kevin Meaders graduated from Oglethorpe University in Atlanta with a double B.A. in Philosophy and Political Science, and then obtained a law degree from Georgia State University College of Law, focusing on estate planning and trust law. He has earned the designations of Certified Financial Planner (CFP®), Chartered Financial Consultant (ChFC) and Chartered Life Underwriter (CLU). He holds a General Securities Principal and Registered Representative registration and Investment Advisor Representative registration through Voya Financial Advisors (member SIPC).

## About Magellan Planning Group

[www.magellanplanning.com](http://www.magellanplanning.com)

Magellan Planning Group was established in 2000 to provide a service uniquely tailored to the needs of our affluent Atlanta community. We concentrate on *personalized* retirement planning through tri-disciplinary coordination:

- Financial planning with our Certified Financial Planner™ to prepare a retirement plan that takes into account your needs and expectations. We are a fee only asset management firm.
- Estate planning with our in-house Attorney-at-Law to determine and prepare the documents needed to minimize family liability and maximize privacy. ([www.magellanlegal.com](http://www.magellanlegal.com))
- Tax planning through a relationship with our in-house CPA to manage tax obligations throughout the year and prepare a tax return that takes into account current tax laws. ([www.magellantax.com](http://www.magellantax.com))

Our relationship doesn't begin and end with the preparation of a plan and the appropriate documents. We establish close personal relationships with our clients and their families and maintain those relationships through regular 'check-ups', market commentaries and educational Lunch & Learns.

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