

By now, you have probably heard about the coronavirus outbreak in the Chinese city of Wuhan. As of this writing, there have been thousands of confirmed cases, with over 80 deaths.<sup>1</sup> Most cases have been within China itself, but the virus has spread to a small number of individuals in over fifteen countries. As you can imagine, the outbreak has put global markets on edge. On January 27th, the Dow dropped over 450 points due to concerns about the virus's spread.<sup>2</sup> While there's no reason to be alarmed, this is a good opportunity to remind ourselves why taking a longer view is so important. I'll explain what I mean with a brief Q&A:

**Q: I've been ignoring the news. Can you tell me what's going on?** Coronavirus is actually a *group* of viruses that cause respiratory infections. For most people, these infections rarely amount to anything worse than a common cold. But sometimes, certain strains can be either more virulent, more transmissible, or both. Remember the SARS outbreak of 2003? That was also a type of coronavirus. A new strain of coronavirus is behind the current outbreak.

**Q: Okay, so why are the markets worried about this?** The immediate concern is what the outbreak will do to China's economy. With a virus outbreak, analysts are worried about both slowing consumption *and* production, as well as dramatically reduced travel to and from China. All these things could impact the bottom-line of the countries and corporations that do business with China. But the real culprit here is uncertainty. The natural instinct, then, is to draw the blinds, stick the money under the mattress, and wait for the storm to blow over. That's exactly what we're seeing some investors do right now.

**Q: Is that what we should do?** No. Make no mistake, viral outbreaks *can* have an impact on the global economy. Certain sectors of the markets, like travel, energy, and retail, could be in for a few weeks – or months – of headaches. For example, let's go back to the SARS outbreak of 2003. In that case, SARS is estimated to have cost the world economy \$40 billion.<sup>3</sup> The S&P 500 dropped 8.3% during that time, and many other stock markets suffered large losses, too.<sup>4</sup> But the thing to remember is that the effect SARS had on the market was *temporary*. After hitting its low in February of 2003, the S&P then went on a tear, finishing up 26% for the year.<sup>5</sup> This is in keeping with how global events usually affect the markets: A short, sometimes steep slide as investors try to figure out what's going on, followed by a longer climb.

**Q: So, what should we do about all this?** For the people directly affected by the outbreak, and for the heroic men and women combatting it, coronavirus is a serious issue. For us, this is an opportunity to remember why we shouldn't overreact to headlines. While they can be unsettling, they very rarely require us to make changes to our investment strategy. For that reason, the best thing we can do is to *mentally* prepare ourselves for more volatility should this outbreak worsen. Of course, mental preparation and emotional discipline are two of the best things we can practice as investors, rain or shine, in sickness and in health. But in the meantime, for us here at Petra Financial Solutions, it is business as usual. As always, please let me know if you have *any* questions or concerns. I'm always happy to be of service. Have a great February!

<sup>1</sup> "Tracking coronavirus," *BNO News*, <https://bnonews.com/index.php/2020/01/the-latest-coronavirus-cases/>

<sup>2</sup> "Dow Drops Over 450 Points on Coronavirus Fears," *The Wall Street Journal*, [https://www.wsj.com/articles/global-stocks-slide-on-coronavirus-fears-11580119666?mod=hp\\_lead\\_pos2](https://www.wsj.com/articles/global-stocks-slide-on-coronavirus-fears-11580119666?mod=hp_lead_pos2)

<sup>3</sup> "SARS wiped \$40 billion off world markets," *NBC News*, <https://www.nbcnews.com/business/markets/sars-wiped-40-billion-world-markets-what-will-coronavirus-do-n1122151>

<sup>4</sup> "A History of Coronavirus Outbreaks and the Stock Market," *Yahoo Finance*, <https://finance.yahoo.com/news/history-coronavirus-outbreaks-stock-market-204520997.html>

<sup>5</sup> "S&P 500 Historical Annual Returns," *Macro Trends*, <https://www.macrotrends.net/2526/sp-500-historical-annual-returns>