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Corona Virus Response from Texas Wealth Management, LLC by Michael Hesse
Emailed on 03/17/2020

Hello New World
March 13, 2020

I have always said that just because a market is at or near a record high and is historically overvalued, does not mean that it is going to crash and burn the next day. My analogy is that the risk of overvalued markets is like dousing your clothes with gasoline and walking around in downtown Houston all day. Everything seems okay until you run into a match. Then things change quickly. What was once a potential risk is now very real. Every overvalued market has at some point run into its match. This stock market met its match by way of the Coronavirus, with an extra spark provided by an oil price war between Russia and Saudi Arabia. It seems to me that the across the board broad declines in all risk based assets, based on currently known information about this virus, is well overblown. In fact, this is a classic panic reaction. Having said that, no one knows what this virus really is or even where it came from. Did it come from bats in a meat market in Wuhan, China or perhaps from the nearby Chinese bio weapons lab? From zero to panic in under three months is because of the absolute uncertainty surrounding this thing. After all, as far as we know, it did not even exist three months ago. So, how many will be infected in the next 30 days? 90 days? Because of the dramatic actions now being taken to prevent its spread or even just the coming warmer weather, will it self-dissipate as the flu does each year? Of those infected and those who completely recover, will there be lingering health issues that show up maybe six months or six years later? If I had to pick two measurement points, perhaps 30 to 45 days from now and then again six months from now may provide more valuable data for us to more accurately evaluate just what and how serious this truly is, or is not. The 30 to 45 day measurement point may prove quite important as that coincides with the timeframe of many of the restrictions recently put in place to combat the spread of the virus. If it does spread as many are predicting then there will be a huge shortage of all kinds of things like test kits, hospital beds and respiratory machines. There is also a concern that an overwhelming of the healthcare system could crowd out care for the other normal needs that happen every day like heart attacks, strokes or even car accidents. So, maybe we should all just reduce our public activities for a few weeks when we will likely then have more hard data on this thing.

Our office will be following the recommended hygiene protocols and are requesting of you that all meetings through the end of April be held by telephone. We will then reevaluate. For more information on the Coronavirus and how you can protect yourself, we invite you to visit the Center of Disease and Control Prevention at:
https://www.cdc.gov/coronavirus/2019-ncov/index.html.

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Let's take a look at how our world has changed in the past couple months and how different entities are reacting to the Coronavirus.

Society's reaction: Unprecedented canceling of major events like pro and college basketball, the Houston rodeo, major league hockey and baseball and almost any gathering that would bring together about 100 people or more, such as weddings and funerals. Also, closing of K-12 schools, amusement parks, Broadway plays, universities going to remote online classes and many companies having employees work from home.

Government reaction: Travel bans, entire countries sealing their borders, postponing primary elections, encouraging the search for a vaccine and of course more and more spending and the reduction of revenues. Uncle Sam was on pace to add +/- $1.5 trillion to the debt this year before the virus. It may now be $2 trillion or more. This may well increase the odds on the follow-on crisis: a debt/currency crisis (more on that in a later communication).

Federal Reserve reaction: They cut interest rates half percent and more are expected. They announced they are adding $1.5 trillion of liquidity to the economy and are buying at least $80 billion a month of US Treasury securities. There is mounting evidence that they may be the "buyer of last resort". As the federal government accelerates it's spending the money has to come from somewhere. So they issue more and more bonds but the usual buyers seem to have had their fill of bonds. So as supply is exploding, demand is softening, leaving the Federal Reserve to print more money to buy the bonds to provide the government with the cash to spend. This cannot end well. A debt/currency crisis brewing? Again, more on that later.

Market reactions: As of today, Friday, March 13th, in the last few weeks all ownership/risk-based investments are down a lot. The 11 year bull market is officially over. These are all approximate numbers because markets have been moving in both directions up to 5% or more in a day. Stock funds down 25% or so, energy funds down 40% or so, gold funds down 30% or so, and even Bitcoin is down 45% or so. It is not surprising that stocks are down. Earnings were not so good even before the virus. What is more surprising is that gold and even bonds went down on some of the same days that stocks were down. This to me is just more proof of the panic mentality that has ruled these last few weeks. I suspect that this will play out to more normal historical relationships over time. By the way, this was the second most rapid decline of the stock market into bear market territory (a decline of 20% or more) in history.

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So all of these various reactions have been in the short term, just the past few weeks. But the real question is what will be the ultimate cost or economic disruption in the long term? Here is where the six-month measurement point is important. Entire countries have shut down, supply chains already weakened by trade wars, have been severed. People will reduce their spending, company sales will decline, which will lead to reduced earnings, which is not good for stocks or jobs. Will we, will the whole world be in a recession in six months? Maybe, maybe not. It is however, almost a sure bet that economic statistics released over the next quarter or two, will range from pretty bad to horrid. Again, it is the great uncertainty of this virus which has resulted in the short term panic behavior. Only time will provide more certainty. We must therefore be consciously diligent in order to reduce our odds of contracting and spreading this virus but we must also be patient as there is simply no way to fast track the learning curve. It will take time, but this too shall pass.

On your behalf, we will be paying close attention as events unfold and will update you as appropriate. I believe we are positioned well to ride out this storm and to even perhaps take advantage of lower prices in various markets at some point.

Over these next few weeks or perhaps months, please be consciously and continually aware and risk adverse in your day to day activities. Do not become a member of the panic patrol. Give this virus some time to unveil itself and for the markets to calm down. Thank you for your trust. You know that we will always be on your side.

Sincerely,
Michael W. Hesse, CFP, CLU, ChFC, CPFA
Texas Wealth Management LLC, Managing Member