

The Bridge Over the Virus Crisis

Nature created the virus. Man is creating the crisis.

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On Wednesday, February 12, 2020, the Dow Jones Industrial Average (DJIA) closed at a record 29,551. Less than six weeks later, the DJIA dropped almost 37% to close at 18,591 on Monday, March 23rd. It was the fastest bear market on record since 1900 (a bear market occurs when the stock market drops at least 20%). The DJIA has since rebounded to 23,949 as of yesterday.

That was our first bout of stock market volatility associated with the coronavirus. The underlying cause was the grim statistic on the number of expected deaths. At that time, the Imperial College of London modeled that the U.S. would have 2.2 million deaths due to the coronavirus. The expected death toll roiled the media, the economy and the stock market. As of this writing, the expected death toll has dropped to about 60,000 in the U.S.

At Cal Cap, we believe managing expectations is just as important as managing assets. We believe the next bout of stock market volatility will be caused by the crisis that is being created by man. A formula might look like:

The Blame Game + When to Open the Economy + Terrible (but Temporary) Economic Numbers
= The Next Bout of Stock Market Volatility

The blame game and finger pointing has already started worldwide. Who did what, where and when will be dissected and debated for ages. Deciding when and how to open the economy will be its own war of words. To date, this has been child's play as compared to when the terrible but temporary economic numbers begin to make daily headlines in the coming weeks. This week we are entering the first earnings season (routine quarterly reports) where companies will state how the virus crisis has impacted them to date. It won't be pretty -- and it will only get worse while the quarantine continues.

During World War II, on September 7, 1940, the German Luftwaffe began their bombing "Blitzkrieg" on London and other British cities. On that first night, an estimated 350 German bombers, escorted by over 615 German fighter planes, attacked London in the first wave. About two hours later, using the fires set by the first wave, the second wave struck. That was just the first night. This phase of the Blitz lasted for fifty-seven consecutive nights. Or as historian and author Erik Larson states, "Fifty-seven 9/11's in a row."

We need to steel ourselves for the Blitz version of the blame game that is on our doorstep, which we believe will arrive in tandem with discouraging economic data. Together, these have the ability to attack our emotional competence and challenge our fundamental investment beliefs. This may result in you (and others) wanting to make emotional investment decisions that feel good in the short term. When the smoke clears and logic returns, we think those who act on emotion will regret their decisions. Regret can last a lifetime. We want to help each of our clients clear this hurdle.

Classic finance asks how rational decision-makers should act in the face of risk. *Behavioral finance examines how people actually act.* At Cal Cap, we have more concern about how client emotion could impact decision-making than we do making sure your hard-earned money effectively gets through this tough, but temporary, period.

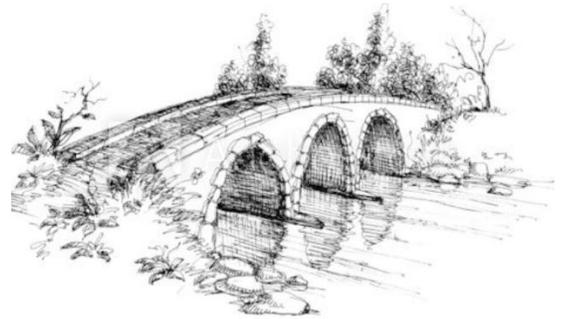
One of my coronavirus positive distractions of taking a short walk twice per day has now morphed into walking a minimum of five miles at least five days per week. These short walks started as a brief respite from the office and have now become problem-solving sessions. Now, I take a “problem” for a walk.

During my most recent walks, I tried to envision how this next bout of stock market volatility could play out, how we best manage it and ultimately overcome it. I immediately visualized a medieval bridge covering a nasty and dangerous chasm.

Below this bridge lives the coronavirus and all the negativity that it attracts. It’s disruptive, divisive and hurtful. You can define the negativity under the bridge however you want. Everything from feeling hopeless to the blame game and from panicking to hoarding. However you define it, negativity thrives under this bridge.

We must all cross this bridge. A return to a more normal life awaits us on the other side. We are each going to choose how we get across the chasm -- and at what expense to ourselves and to those around us that we care about. The way I see it, we have three ways to get to the other side:

(A) Crawl through the mud. You can navigate down one embankment and make your way under the bridge to where the negativity thrives. This is where the blame game lives. Now you are soaked in negativity, and at some point you must find the power to navigate up the steep embankment on the other side swathed in all this negativity. This route takes the most effort and exacts the greatest toll on you and those around you.



(B) Put one foot in front of the other. You can walk across the bridge by purposely focusing your energy to avoid negativity as much as possible while keeping your eyes wide open and focused. This route takes less effort and provides a sense of well-being. This route gets you to the other side.

(C) Soar like a bird. You can seemingly glide over the chasm with relative ease. This requires a strong belief in “I got this,” where you display grit and help others cross as well. As Mr. Rogers famously said, “When I was a boy and I would see scary things in the news, my mother would say to me, ‘Look for the helpers. You will always find people who are helping.’” This route gets you AND the ones you care about to the other side, with the least amount of damage to your psyche and the greatest ability to move forward from a place of strength.

If you cannot see the other side with your eyes, then see it with the hindsight of knowing America has overcome every single health and economic crisis in our history. Every single one. See it from General Washington's eyes. Or Harriet Tubman's eyes. Determination and grit are the kryptonite to what lives under the bridge. No other country in human history has our track record of going from surviving back to thriving.

Starting with this note, we are going to share more ideas, articles and notes on how to get across this bridge effectively. To begin, I would suggest discreetly examining those around you and ask yourself, based on their behavior, which path to the other side of the bridge are they taking? Make a private game out of it. In my own life, I see or hear about people taking each route and find they tend to fall into one of the following groups:

Under the Bridge: The person who has not yet implemented positive distractions during this virus crisis. They seem the most lost in their own house. Worse yet, all they want to do is share the negativity with anyone who will listen. They cannot be their own compass since they are stuck and weighed down by mud. Sadly, I think some don't even realize it. Most likely, their choice to be Under the Bridge was by default instead of being proactive in how they wanted to handle the virus crisis.

Across the Bridge: The person who is greatly concerned about the virus but realizes it's temporary. Most importantly, they understand that their situation needs to be proactively managed. This person incorporates positive distractions (Zoom yoga sessions or happy hour, calling friends they have not spoken with in years, reading, walking, fixing up their place, painting, cooking or teaching themselves a language) to not only pass the time, but to take advantage of it. They are not immune to a negative moment, but they can see a defined path to the other side of the bridge and are marching towards it.

Flying Over the Bridge: Think of those still volunteering for the less fortunate. Or the family member who routinely checks in on you. Or the friend who is planning the "COVID-19 blowout bash" to make up for lost moments. Or the person who calls to "bury the hatchet." These are the some of the caretakers of life, or as Mr. Rogers said, "These are the helpers."

I encourage you to examine yourself too. Which path are you taking? More importantly, which path would be better for your physical and mental health?

A recent essay in the *Harvard Business Review* posed the following questions:

- (1) Who am I checking on or connecting with today?
- (2) What expectations of "normal" am I letting go today?
- (3) How am I getting outside today?
- (4) How am I moving my body today?
- (5) How am I expressing my creativity today?
- (6) What type of "self-care" am I practicing today?
- (7) What am I grateful for today?

I would add the following questions:

- (1) Is your behavior adding to the panic or aiding the calm?
- (2) Is your present behavior helpful to your future self?
- (3) Is your present behavior helpful to those you care about?

We have been managing money for 33 years, with a front row seat to observing emotional competence within our client base. Investors who work on maintaining a high level of emotional competence enjoy the best long-term investment results.

During the Blitz, at 3:00pm daily, Winston Churchill would have a glass of champagne or brandy. When asked why that routine was important, Churchill responded, "To remind me that we are fighting to return to a civil life."

I'd like to think Churchill was looking across the bridge to when a more normal life would return.



Winston Churchill checking on and connecting with British citizens during the Blitz in London.