

Managing Through the Coronavirus Crisis

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Part 1: What's happening?

What do we know about COVID-19?



The virus has been detected in more than 190 nations and grows by the day.



The World Health Organization has characterized the outbreak as a pandemic



At this time, there is no vaccine to protect against COVID-19 and no medications approved to treat it

Where can we track cases of COVID-19?

WORLD / COUNTRIES / UNITED STATES

Last updated: March 25, 2020, 15:56 GMT

 United States

Coronavirus Cases:

59,966

Deaths:

792

Recovered:

379

- ▶ [The Worldometer website](#) provides a world map of COVID-19 cases with options for sorting (be it by total cases, recoveries, or deaths)

Now Yesterday Search:

USA State	Total Cases	New Cases	Total Deaths	New Deaths	Active Cases	Source
New York	30,811	+4,463	271		30,432	[source] [source] [source] [source] [source]
New Jersey	3,675		44		3,631	[source] [source] [source]

Known Unknowns Create Market Volatility (and Losses)

It is difficult to predict how the virus will fare over the next several months as there are multiple unknowns, such as:

How the virus responds to increased temperatures

Whether people who have survived the virus can contract it a second time

When a vaccine will be developed to protect against the virus



Remember that the current market distress is most directly related to the uncertainty surrounding COVID-19 (and not underlying economic weakness)

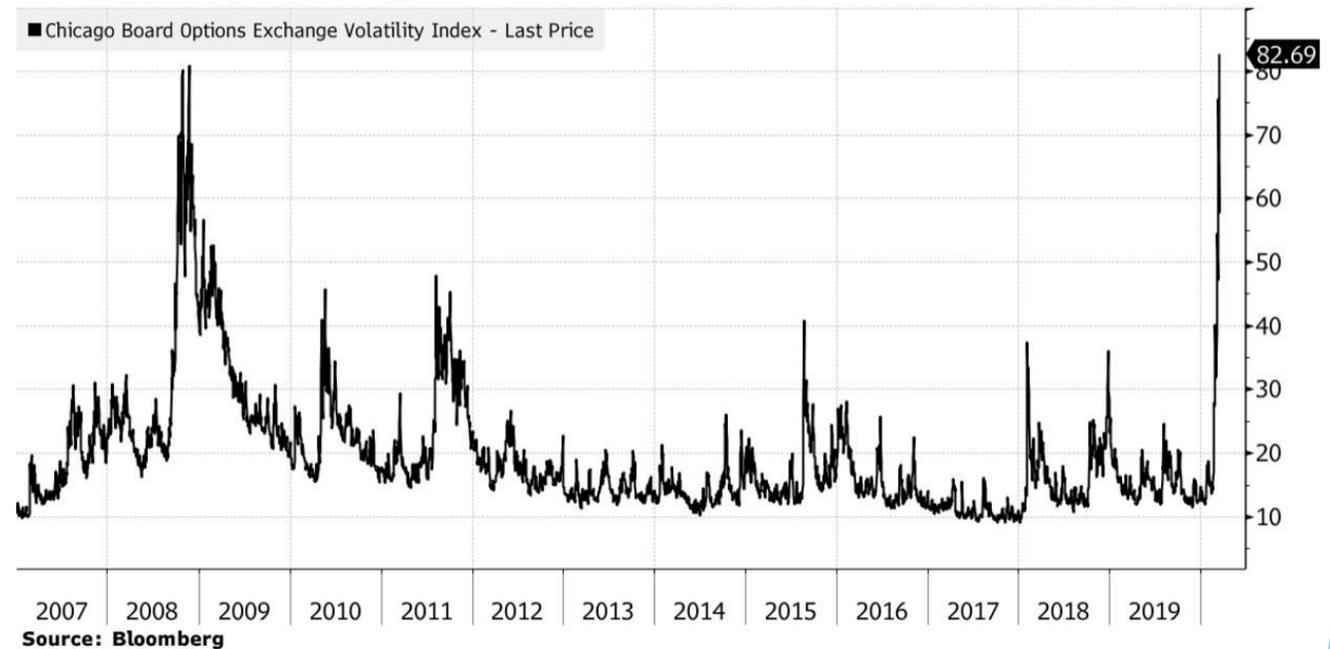
Part 2: This is bad,
but how does it

- ▶ compare to 2008?

VIX at Record High

- ▶ Volatility in U.S. stocks surged to a record after benchmark indexes suffered the biggest rout since 1987
- ▶ The Cboe Volatility Index ended Monday at 82.69 as the S&P 500 Index tumbled 12%
- ▶ The fear gauge's prior closing high was 80.86 on Nov. 20, 2008
- ▶ Part of this volatility is being caused by programmed trading

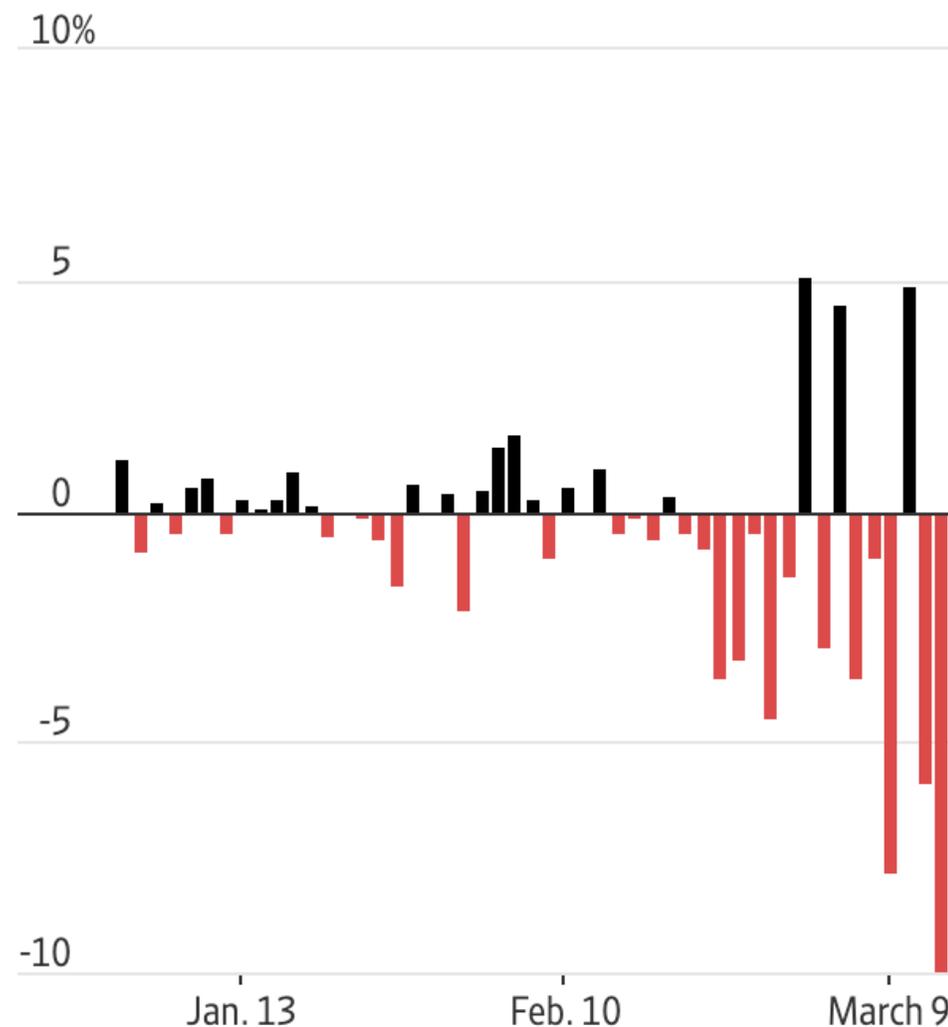
Peak Fear VIX closes at a record high



Uncertainty Yields Headline Risk Which Yields Market Volatility

- ▶ Investors are largely responding to headlines, which causes significant market volatility as each day brings different news from the day before
- ▶ This graph shows that the market has been experiencing significant gains and losses with seemingly no rhyme or reason
 - ▶ Last week the Dow closed down 9.99% on one day, the most since Black Monday in 1987
 - ▶ On Friday of the same week, the Dow had one of its largest point gains ever, rising 9.3% in the last 30 minutes of trading

Dow Jones Industrial Average, daily moves



Source: FactSet

When will extreme market volatility end?

Market volatility will continue until there is a clear path forward from the present crisis



The path would likely take the form of one of three things:

A sustained decrease in cases

A sustained decrease in deaths

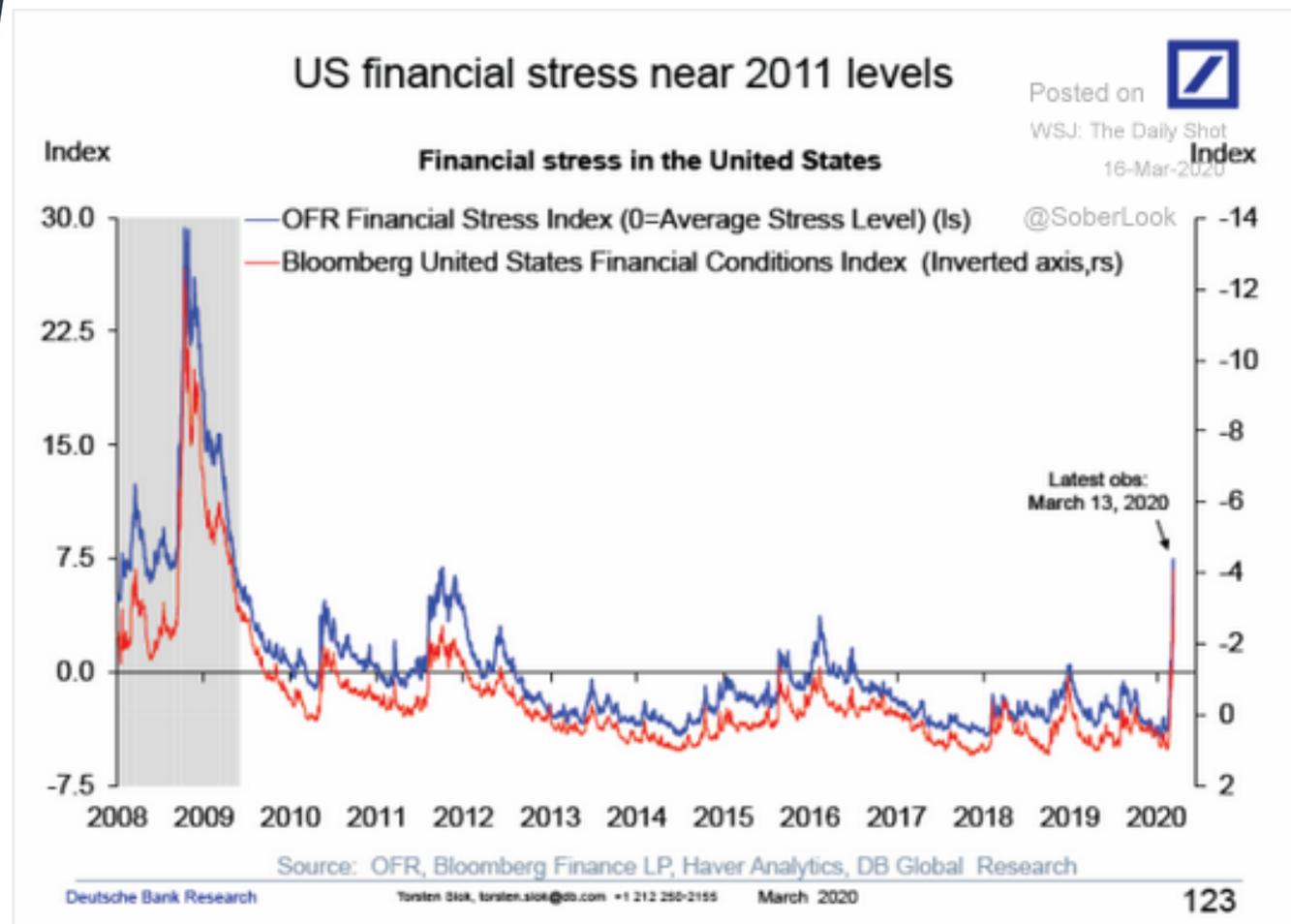
The creation of an effective and trusted vaccine



Until then, be prepared for almost anything

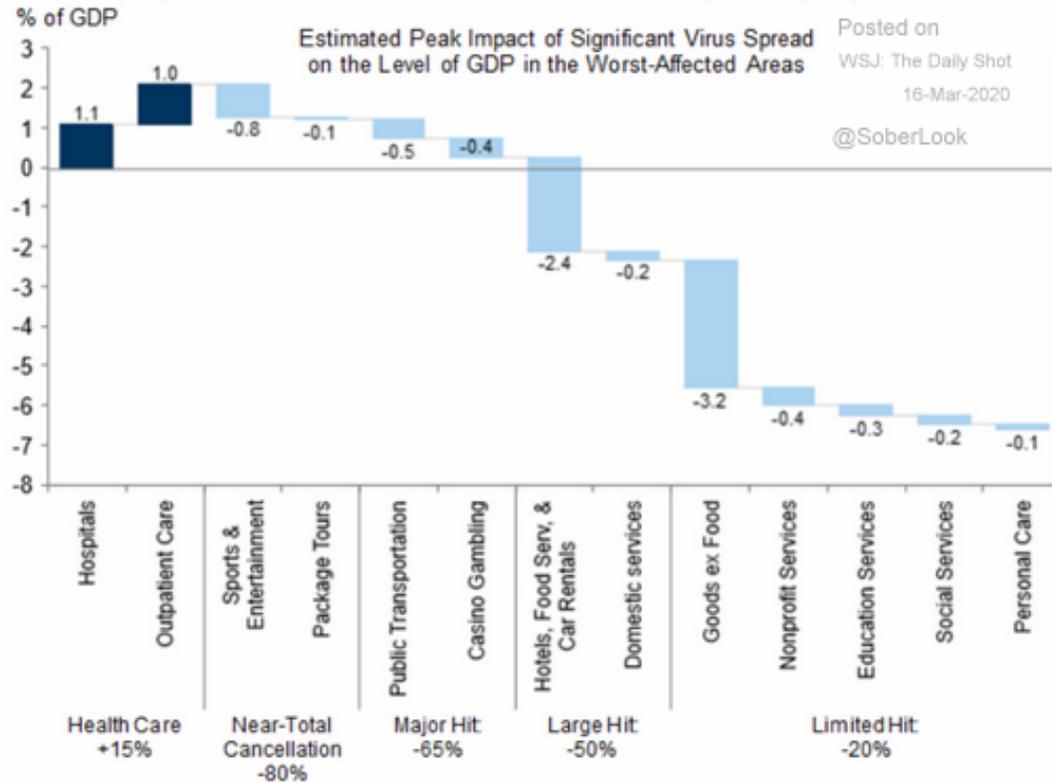
Is the current market situation comparable to the 2008 financial crisis?

- ▶ The chart shows that the Financial Stress Indicator is the highest it has been since the 2008 crisis
- ▶ The current effects on the market are less severe than the effects of the 2008 crisis
- ▶ As of March 18th, stocks have fallen around 30% from their peak, compared with a 59% peak to bottom during the financial crisis
- ▶ It is too soon to say what the magnitude and duration of this crisis will look like



COVID-19 Hurts Businesses and a Technical Recession Seems Likely

Exhibit 1: We Expect Major Cutbacks in US Consumer Activity Through April



Source: Goldman Sachs Global Investment Research

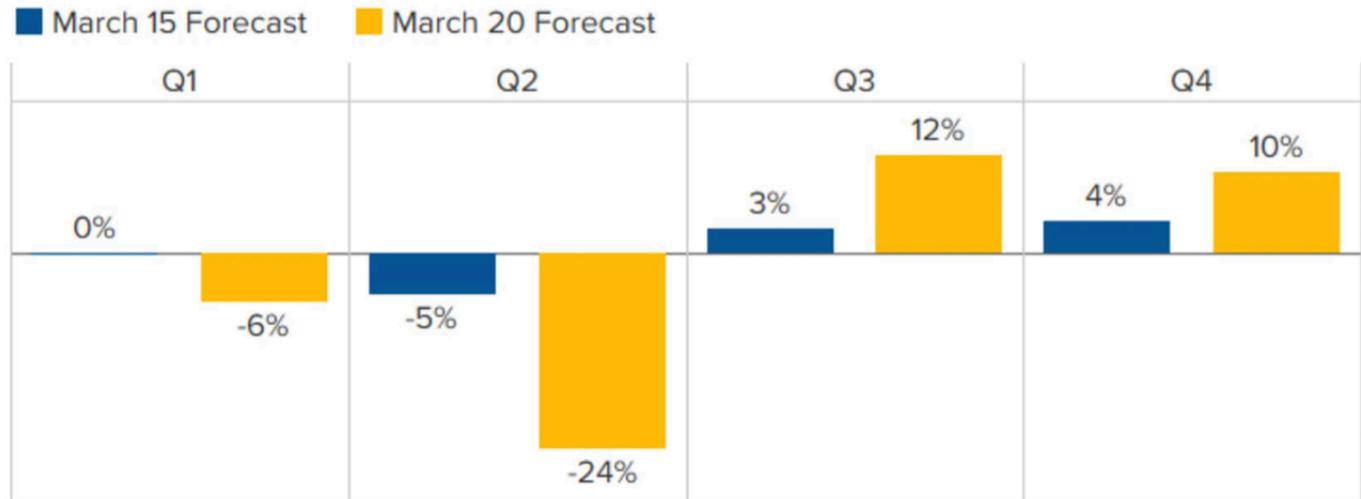
- ▶ COVID-19 has begun to affect virtually all businesses with hospitality being hit the hardest
- ▶ According to the Bureau of Labor Statistics, only 28.8% of workers can work from home
- ▶ Business owners' confidence in the economy has decreased significantly

Data Predicts Positive Quarters for Q3 and Q4

- ▶ It is hopeful that any recession would be short lived and would merely qualify as a “technical recession”
- ▶ Remember that January and February numbers were sound, along with the banking system
- ▶ As a result, the data is showing that Q3 and Q4 would emerge as positive quarters
- ▶ Every crisis is different, and it is TBD

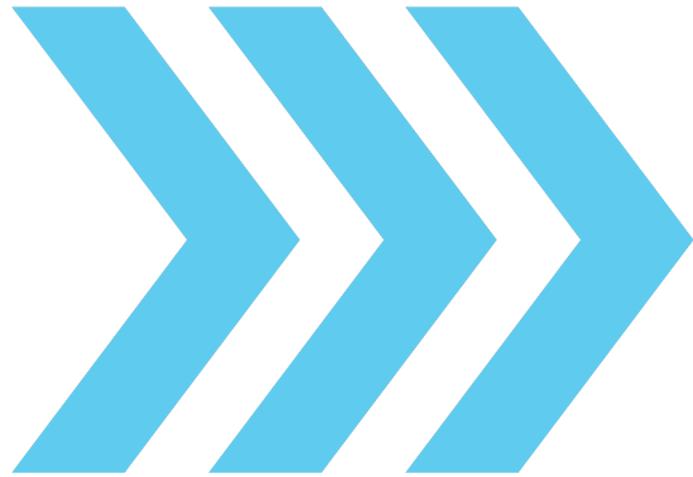
Goldman's revised GDP forecast

2020 quarterly GDP growth, based on Goldman Sachs forecasts



Source: Goldman Sachs



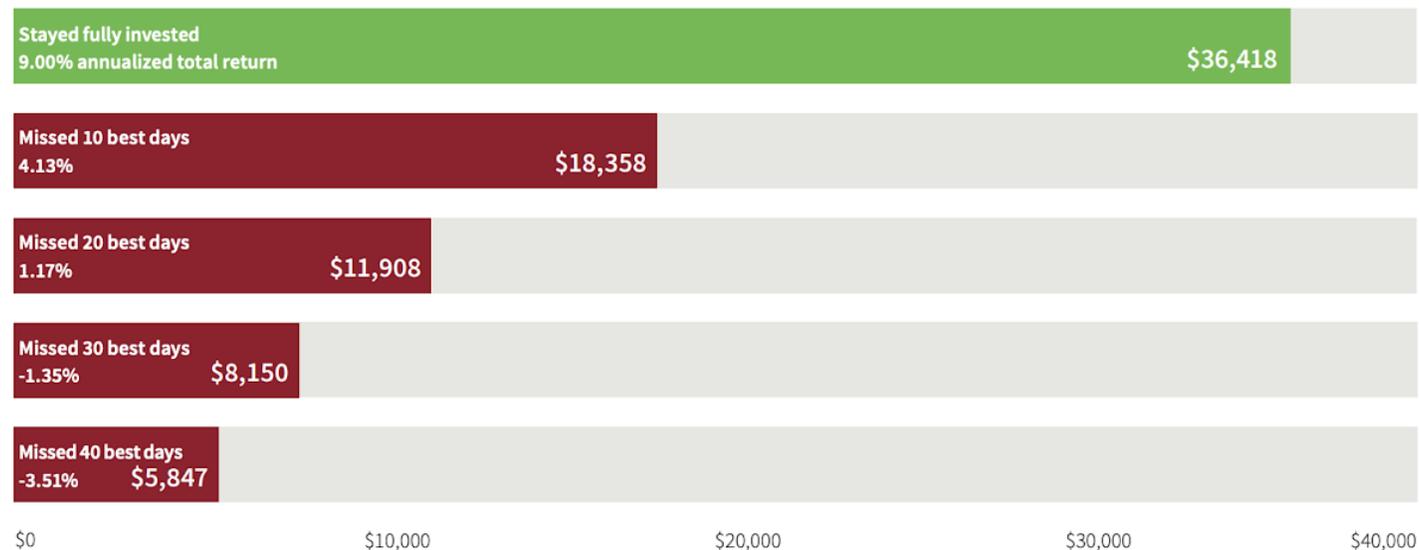


Part 3: There is a path forward

Buy Low and Sell High?

- ▶ The common investment mantra to “buy low and sell high” gets much more complicated when emotions and timing issues come into play
- ▶ By attempting to time the market (by selling after a potential 30% loss), you can miss out on the market’s best days which account for much of the market’s gains

\$10,000 invested in the S&P 500 (12/31/04–12/31/19)



By staying fully invested over the past 15 years, you would have earned \$18,060 more than someone who missed the market’s 10 best days.

Data is historical. Past performance is not a guarantee of future results. The best time to invest assumes shares are bought when market prices are low.

Source: Putnam Investing

Markets Will Rebound

Immune: world epidemics and global stock market performance



The MSCI World Index captures large and mid cap representation across 23 Developed Markets countries. With 1,646 constituents, the index covers approximately 85% of the free float-adjusted market capitalization in each country. **Past performance is no guarantee of future results.**

- ▶ The market typically rebounds from epidemics quite quickly
- ▶ Remember that the underlying fundamentals were strong to begin with
- ▶ Again, it is TBD how the markets and the economy will react to this particular threat

Market Rebounds After Previous Epidemics

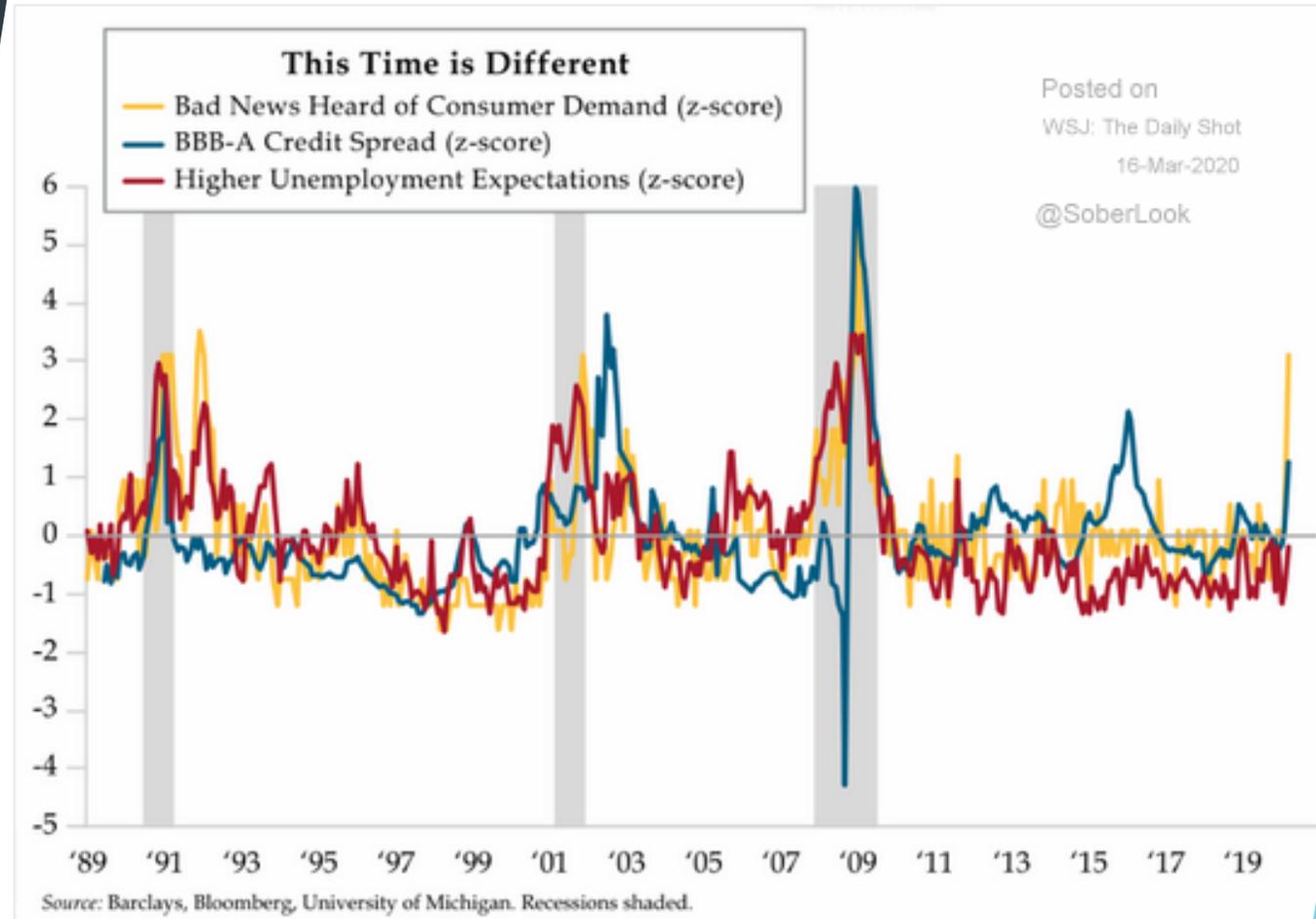
EPIDEMIC	MONTH END	6-MONTH % CHANGE OF S&P	12-MONTH % CHANGE OF S&P
HIV/AIDS	June 1981	-0.3	-16.5
Pneumonic plague	September 1994	8.2	26.3
SARS	April 2003	14.59	20.76
Avian flu	June 2006	11.66	18.36
Dengue Fever	September 2006	6.36	14.29
Swine flu	April 2009	18.72	35.96
Cholera	November 2010	13.95	5.63
MERS	May 2013	10.74	17.96
Ebola	March 2014	5.34	10.44
Measles/Rubeola	December 2014	0.20	-0.73
Zika	January 2016	12.03	17.45
Measles/Rubeola	June 2019	9.82%	N/A

—Source: Dow Jones Market Data

- ▶ The table demonstrates that despite any poor performance that initially occurred following outbreaks, stocks managed to experience gains within one year
- ▶ We are in a full-fledged bear market, which typically take about 2 years to recover from

Bond Spreads are the Canary in the Coal Mine

- ▶ The corporate bond spread is typically a good indicator of how risky investors view the market
- ▶ Currently, the spread is around 8%, which is higher than the usual 4% and much lower than the 21% of the financial crisis
- ▶ Continue to watch widening bond spreads for market signals



The current driving fear of the market is the unknown

It is too soon to say if this is the 2008-2009 financial crisis

Try not to get caught up in the immediate, and think long term instead

Try to Think Long Term and Stick with the Plan

How can we prepare for COVID-19?

- ▶ Create a [household plan of action](#) in case of illness in the household or disruption of daily activities due to COVID-19 in the community
 - ▶ Consider 30-days supply of prescription and over the counter medications, food and other essentials. Know how to get food delivered if possible.
 - ▶ Establish ways to communicate with others
 - ▶ Establish plans to telework, what to do about childcare needs, how to adapt to cancellation of events
- ▶ Visit the [CDC website](#) to learn more on how to prepare for COVID-19

The background features a series of overlapping, semi-transparent blue geometric shapes, primarily triangles and trapezoids, that create a dynamic, layered effect. The colors range from a light sky blue to a deep, dark navy blue. The shapes are positioned on the right side of the frame, extending towards the center.

THANK YOU!
It is a privilege to
serve you.

Questions?