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STIFEL

Pandemic 2020: A Special Report

Pandemic, pan·dem·ic | \ pan-'de-mik
Definition: An outbreak of a disease that occurs over a wide geographic area and affects an exceptionally high proportion of the population.

Anyone ready for 2020 to be over? I know I am. I was supposed to be travelling to France in July. Silly me! I was so hopeful at the beginning of the year. The markets ended 2019 in a very positive light, and it looked as though the upward momentum might continue. Little could anyone have predicted how quickly or to what degree COVID-19 would affect everyone. No one in the world has been unaffected by this virus.

The health risks of COVID-19 are apparent, and most everyone I know is taking reasonable precautions to stay safe. At Stifel, we have set up protocols (based on CDC guidelines, local authorities, and our corporate recommendations) to keep us and our clients as safe as possible. Many of our employees continue to work remotely, and Zoom meetings have become the norm, while face-to-face meetings are the exception.

Beyond the disease, though, this outbreak has completely changed almost every aspect of our life: How we socialize (or don't socialize); family life (my 27-year-old daughter has been staying with us for four months); how we shop (who doesn't shop online?); how we get our medical care (think telemedicine); how we work (most people who continue to work, now work remotely from home – and are being productive). It is mind-blowing the degree to which life has changed. I think we have to start getting used to the fact that some of the changes will become permanent.

By the definition above, there has been a financial pandemic as well. The pandemic has affected the global markets, and has impacted almost every facet of finances. It has created uncertainty, which has led to a lot of volatility. Unemployment, which was at decade-low numbers in February, reached levels which rivaled the worst times in the past hundred years. Oil prices plummeted as we ended up with an oversupply as the world shut down. Interest rates have tanked as there was both a flight to quality (government bonds) and Federal Reserve intervention (Thank you, Fed). The state and federal governments have also been very aggressive in extending benefits to individuals and companies (Thank you, state and federal governments). Luckily, the equity markets have made one of the steepest rebounds ever since the market lows in March.

A Tale of Two Investors

I have contended that life is more complex and confusing than the sound bites that are served up by the popular media. Life is not "binary" (a new term in my personal lexicon). In our current emotionally heightened culture, we want to oversimplify everything by labeling issues in polarizing terms: black and white, good and bad, liberal and conservative, wrong and right. In truth, life is nuanced, layered, and multi-faceted. In fact, it can be messy and uncomfortable. This has certainly proven to be the case with regard to the financial markets. With our team's philosophy of the Successful Investor Mindset, we continually try to remind our clients that the markets rarely operate in a nice neat package. Uncomfortable times are not only expected, they are a normal part of the process. Our communication has been consistent on this issue for the past twenty-plus years. So, in that light, I still find it remarkable to see how different sets of investors choose to react to similar circumstances.

Case in point: On the same day, we had one client choose to liquidate everything, and a different client allowed us to invest. The first client claimed, "I can't take it anymore," and stated that he is transferring his money to a manager who claimed they could protect his money during the pandemic. I tried to make him see that this was an emotional reaction and one not based on logic. There is no magic pill! I begged and pleaded with him not to do it, and I expressed to him that I thought he was making a big mistake. The second investor, a more novice one, hadn't experienced the decline, so she wasn't as emotionally charged. This was lucky, because she trusted us when we told her that this was not a bad time to invest. (Note: we didn't know if it would be the perfect time to invest.) This reminded me of the famous quote from Warren Buffett, "Be fearful when others are greedy, and be greedy when others are fearful." This is a lesson in choosing one's attitude. The irony is that both of these investors were in similar circumstances, i.e., risk tolerance, asset allocation, net worth, etc. The results were different: The latter investor got to experience the benefits of the market's rebound, while the former sold near the low. It bears repeating, good investing is conceptual, logical, and long term; bad investing is reactionary, emotional, and myopic. You get to

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A Tale of Two Investors Continued

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choose (along with our help and prodding) which investor you want to be. (FREE Brochure: Virtus Investment Partners has published a brochure, “Minds Over Markets” that we can e-mail you upon request. It is consistent with our Successful Investor Mindset philosophy.)

The Zen of YouTube

I love a good YouTube video. In fact, I have been known to binge watch videos whose themes vary far and wide. Recently, I watched a bunch of sentimental “surprise” videos: Wife tells her husband that she is pregnant after trying for five years; deaf baby hearing her mom’s voice for the first time; soldier surprises mom with homecoming. Boy, can my allergies act up when I am watching these. One was a wedding video where the bride’s father had recently passed away and he recorded a toast for the new couple. Of course, everyone at the wedding lost it, and there went my allergies again. I thought the sentiment was very poignant: “The worst storms test the strength of our anchors. Focus on your anchors. May your lives together have many sunny days, and your anchors be strong enough to hold you during life’s storms.”

Has this year been less than great? No doubt. Are we only halfway through it? Uh oh! Will we get through this? You bet. How? By remembering that our lives are fuller than the markets and one’s portfolio. COVID-19, this pandemic, has also affected us in a good way. We are all more cognizant of the simple things in life such as family, friends, and experiences. We want you to know that my team and I will continue to be there for you in both fair weather and storms. We will do everything in our power to make sure your financial anchor remains strong so you can enjoy the sunny days that lie ahead, but continue to feel secure when the storm eventually comes.

Here’s looking to 2021 with positive anticipation. Thank you for allowing us to be part of your life, and don’t ever hesitate to call us should a need or question arise.

Noah’s Corner

For our fourth quarter newsletter last year, I wrote about preparing for the next recession with six practical financial tips:

- Establish an emergency fund
- Reevaluate your monthly automatic payments
- Pay down higher interest debt
- Learn new skills
- Strengthen your network
- Take another look at your financial plan

By all accounts, we are now in the middle of a steep recession, but I still believe there’s no better time than now to implement these tips in your financial lives. I’m going to spotlight the tip regarding your financial plan for the rest of this newsletter, but don’t sleep on those other tips!

For those of you close to retirement, it is particularly important to revisit your financial plan. The plans we put together stress test the probability of a fully funded retirement. It’s extremely valuable information right now because of the economic environment we are all facing. Layoffs have happened nationwide and don’t show any sign of stopping soon.

Layoffs can force the unemployed into taking early (occasionally penalized) distributions from their retirement accounts, or it could even force older workers into an early retirement. Early retirement may sound great to some readers, but being forced into it unprepared can have disastrous financial consequences.

When our team stress tests whether a retirement is fully funded, we are often assuming that the client lives until the age of 90 or beyond. For those who retire at age 65, that means over 25 years of income and inflation that needs to be paid by social security, other income sources, and retirement funds. That’s already a tall order, but if the commencement date gets moved up by a forced early retirement, then it becomes even harder to meet that goal.

If this strikes a nerve with you and you feel you might be underprepared, then please consider contacting us using the contact information at the bottom of the page so we can utilize Stifel’s financial planning resources to create a plan for you and your family.

This is a newsletter from your financial advisor, so of course it’s mainly been focused on the financial consequences of layoffs and unemployment during this recession. However, we are also aware of the large mental and emotional toll that it can have on those who are affected. Unemployment has been linked to depression for decades, but now we also have social distancing, which can diminish the protection a strong social support system can have in the fight against depression and suicide. If you find yourself showing signs of depression, then please consider contacting a mental health professional, or you can get a referral to one from your primary care doctor.

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