KORBITZ FINANCIAL PLANNING

Your goals. Your plan. Your terms.

RECENT STOCK MARKET ACTIVITY

February 29, 2020

Dear Clients and Friends:

The stock market activity of this week has certainly gotten many concerned. The declines in most market indices ranged from 10-13%. The Dow Jones Industrial Average (not my favorite metric, but most commonly used in the news) closed the week down about 3,500 points, or roughly 12%. For context, this puts it back where it closed on February 5, 2019. This week essentially erased the gains of 2019.

At every client meeting I review the Investment Policy Statement and point out the "worst case" one-year portfolio loss, which is based on the year ended February 28, 2009 numbers (ironically 11 years ago on Friday.) Those total portfolio losses for a one-year period range from 20% (for a 40% equity portfolio) to 53% (for a 90% equity portfolio.) Those losses were the result of a 50% decline in stock prices in a one-year period.

The decline in stock prices of 10-12%, while significant when in a one-week period, are normal and common in stock markets. What is NOT normal is to have 11 years of almost continuous rises in stock prices.

I have tried to work with each and every client to find a portfolio allocation that works for them, in good times and in bad. This week is a test of that work.
My advice to clients is to stick with your long-term goals, resist the urge to sell when stocks are falling, and to recognize that every market sell off has resulted ultimately in higher stock prices down the road.

Finally, the following content was put out by Greg Davis, Chief Investment Officer of Vanguard on February 27th. I think it summarizes well the current situation, and their concluding paragraph echoes my sentiments.

Please let me know if you have any questions.

Eric
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Vanguard has been talking about uncertainty for some time now. In fact, it was the theme of our economic and market outlook for 2020, where we put forth our view that perhaps the markets have become too optimistic about the prospects for growth in China, the United States, and elsewhere.

And now comes COVID-19, also known as the coronavirus. News over the weekend suggested a noteworthy spread of the disease beyond China, where it originated, to South Korea, Italy, Iran, and other countries.

We're saddened by the loss and suffering that so many people have already endured. We pray for the recovery of those afflicted and offer condolences to the families of victims.

We also understand investors' concerns about the potential effects of the coronavirus outbreak on China's and the global economy. Our Investment Strategy Group estimates that, in what it sees as its most likely of three scenarios, the virus will take about 0.5 percentage point of growth from China's economy this year. They offer the caveat that their analysis, completed near the end of the week of February 17, assumes the virus would primarily remain contained in mainland China.

Vanguard has a stellar global team of economists. But they're not epidemiologists. Predicting the course of a disease as novel as the coronavirus is sure to challenge even the most accomplished medical scientists.

That said, this is what we do know, from an economic and markets standpoint:

- The coronavirus has introduced uncertainty into the global economy to a degree greater than we had envisioned when we put together our economic and market outlook for 2020.
- Investors frequently respond cautiously to heightened uncertainty, selling out of riskier assets in favor of safe havens.
- Markets have shown over their history that volatility is more the rule than the exception, and that events that prompt selloffs tend to recede into the background over the longer term.

With this knowledge, we encourage investors, as we have for ages, to hold a diversified portfolio of assets, to remain disciplined by avoiding impulsive decisions based on fear and uncertainty, and to stay focused on their long-term goals and their plan for achieving them.

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