LIONSHARE

March 20, 2020

Coronavirus Market

The recent world health crisis of the "COVID-19" Coronavirus has significantly impacted the US and World investment markets. That we all know. The question is what is next?

In my opinion, the recent broad-based overall decline has clearly exposed the fallacy of "index" investing and reinforces the benefit of professional, diversified asset management. As of this moment, the DJIA is off 35% from its peak value of just one month ago. The S&P 500 has been similarly hit.

Contrasting this with diversified portfolios, the indexes are down 15-50% more. To put that in real terms, the ETF Conservative Portfolio is down only 19% and the ETF Aggressive 30%. Now I say "only" in relative terms. This decline has been painful. Even Dividend Plus is off 23%, but this is when professional management and diversification can pay huge dividends. Other than being lucky enough to be in cash when a worldwide pandemic hits, diversification and professional management have been a defense to this market decline. In my opinion, recovery when it comes, and it will come, will be MUCH faster when you are closer to the surface than the indexes.

I believe this global shutdown will have a significant impact on the world and US economies in the short run. The difference between now and the last time we had such a selloff in 2008-2009 is that the underlying economy is much stronger. Airlines and the leisure industry were on pace to have one of their best years ever when this pandemic hit. The overall economy 60 days ago was booming along. None of those underlying strengths have changed. While the economy may take a hit until we get a handle on this virus, when we do, and all indications are that we could relatively quickly (human testing began this week on a vaccine), in my opinion, there is no reason that the economy could not quickly ramp back up to previous levels and beyond. As quickly as the market has declined, it could recover.

Markets like this are when clients can make the worst decisions. Our job as advisors is to keep our clients from making those bad decisions, keep them thinking long-term, and to guide them through the bumps and bruises of a very tough market.

The flip side of all this is that while a few weeks ago, finding undervalued stocks was very challenging, today, the opportunities are striking. The options markets indicate that a significant whipsaw back to near pre-crisis levels is possible for most stocks over the next 90 days. Certain stocks, especially those related to the travel and leisure industry, have been decimated at a time when many were experiencing near record success. I believe oil prices will not stay at current levels long-term and that financial institutions are on firm footing with solid earnings. All these sectors seem to reflect historic buying opportunities. Only a few weeks ago, the pundits were looking at P/E ratios as too high. I looked at several quality, financially sound companies today with P/E ratios in single digits! Dividend yields have jumped as well with the lower prices. I believe this will draw in the enormous levels of cash that is sitting on the sidelines and when it starts to flow, it will likely be an avalanche.

To conclude, I believe “this too shall pass” and while we will continue to have bumps in the road and good and bad days, your job as an advisor is to hold your client’s hand, talk them off the ledge, and keep them moving towards their goals. In my opinion, the economy is strong and will recover. JUST BE PATIENT.

Regards,

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