Fairhaven Update

Patient, enduring growth. | March 2020

From Killer Bees to Coronavirus... Is This Time Different?

A classic and all too repeated investment mistake throughout history is allowing This Time is Different thinking to influence your long-term financial plans. This has been true both in times of euphoria (the dot-com and real estate run-ups) and times of panic (Y2K or the killer bees scare of the 1970s).

We are not medical experts. However, even the experts would have dubious ability to accurately forecast short or long-term economic or health effects of the coronavirus. With not enough facts, extrapolations based on other viruses quickly boil down to educated guesses. Depending on the source, it might be appropriate to remove the qualifier "educated".

So much is yet to be determined: How does the virus travel from person to person? How many people will ultimately be affected? How many of those people will have long-term effects including death? What countermeasures might be developed and how quickly? What will the effect be on the economy? Might a temporary reduction in Chinese manufacturing accelerate a shift to increased U.S. and European manufacturing resulting in a more diversified global supply chain? What can be determined from this brief list of questions is the present magnitude of uncertainty.

An early February report by Moody's Analytics estimated that each percentage point reduction in China's real gross domestic product (GDP) will reduce global GDP outside China by 0.4%. As a result, Moody's lowered its projection for 2020 global growth from around 2.8% to 2.5%.[1] In a recent report from Kristalina Georgieva, managing director of the International Monetary Fund, the suggestion was made that the virus might reduce the IMF 2020 global growth projection from 3.3% to 3.0%. Georgieva also commented, if coronavirus "is contained rapidly, there can be a sharp drop and a very rapid rebound."[2] Two groups of economic experts seem to believe it possible we might experience a degree of economic slowdown. Importantly, neither spoke of a screeching halt to the global economy.

Recently, the Centers for Disease Control and Prevention (CDC) issued a checklist of preventative actions we can all take to help protect ourselves from spreading any type of respiratory illnesses, coronavirus, the annual flu, etc:

- Avoid close contact with people who are sick.
- Stay home when you are sick, except to get medical care.
- Cover your coughs and sneezes with a tissue.
- Clean frequently touched surfaces and objects daily

Medical experts at the CDC go on to remind us of the importance of washing our hands often, especially after going to the bathroom; before eating; and after blowing your nose, coughing, or sneezing. Panic might be the appropriate response if you aren't already doing these things.

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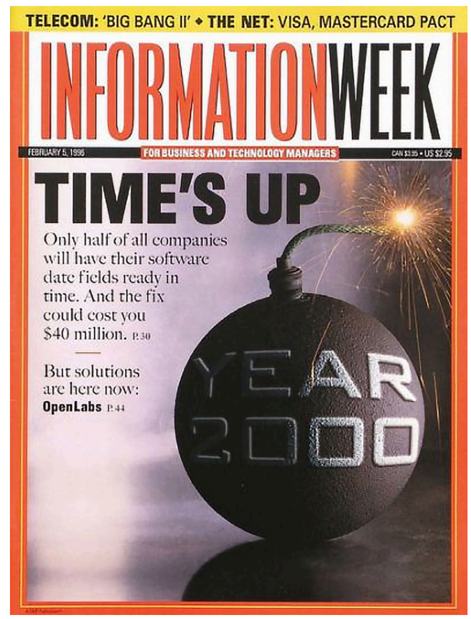
What to do? After the experts have learned enough about coronavirus and developed strategies to combat it, we believe it is unlikely to permanently change our way of life, drive otherwise healthy businesses into bankruptcy or send the global economy off the cliff (reminding you we are not medical experts, we readily admit this is a guess but assert it to be an "educated in prudent financial planning" guess).

Buy, sell or hold? A comprehensive financial plan will have embedded in its assumptions periodic market dislocations. That is not to say specifically coronavirus, but market reactions that tend to be accompanied by such events. From that perspective, we believe remaining disciplined to your plan is the best course of action.

However, if you are feeling a little frisky, it's probably OK to do a little buying. On the other hand, if recent market moves are keeping you up at night, it might make sense to release some of that pressure by reducing your equity allocation. However, we would strongly urge such a move to be accompanied by a dollar-cost averaging plan to return your portfolio to the target asset allocation in your financial plan. This time is different…we doubt it.



1) Moody's Analytics, February 2020
2) Bangkok Post, February 17, 2020
3) https://www.cdc.gov/coronavirus/2019-ncov/community/home/get-your-household-ready-for-COVID-19.html

For more information, please contact:

Marc Horner, CFP®
Wealth Advisor
President
mhorner@fairhavenw.com
630.990.9000

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