Geoffrey Lenk 508-428-1645

LENK LADNER
Investment Solutions

John Ladner 508-420-1684

**MARKET COMMENTARY** March 6, 2020

| | | | |
|---|---|---|---|
| Dow Jones Industrial Avg. | 28,538.44 | Standard and Poor's 500 | 3230.78 |
| 2019 (YTD) +22.3% | 4th Qtr. +6.0% | 2019 (YTD) +28.9% | 4th Qtr. +8.5% |

"The only thing to fear is fear itself." Franklin D. Roosevelt

**China Redux -** The whole world is on alert as China attempts to snuff out the quickly spreading coronavirus, which has already infected more than 100,000 worldwide, the vast majority, in that country. It has surfaced in a growing list of other countries as well. Health officials everywhere are focused on attempting to nip it in the bud. This health crisis has quickly surpassed China's previous economic confrontation with the United States as the primary challenge to the world's continued economy growth. If this virus achieves pandemic status, all nations will put in place increasingly restrictive measures to protect their populations. Travel and trade have already been impacted. In fact, the effects are already being felt in this country, especially by those companies dependent on China's extensive manufacturing base to support their supply chains. Now many companies are questioning their earlier decisions to rely so heavily on China, yet the ability to relocate manufacturing resources to other countries can be a long and arduous process. As a result, companies in certain industries, such as semiconductors or apparel, are likely to find themselves supply constrained. This means over the short run sales and profits of these companies are likely to be under considerable pressure. Moreover, if the disease continues to spread at its current rate, a worldwide recession is likely to ensue.

Travel is one sector which is being adversely impacted by fears of contracting the virus. There have already been several tourist related incidences. The most notable being the Princess Cruise ship stranded in Yokohama, Japan with more than 500 certified cases of the virus among its 3711 passengers and crew. Airlines are being impacted as well as travelers seek to avoid the risk of contracting the disease in crowded airports or being expose to the virus by other passengers on planes loaded to capacity. If the virus establishes a foothold in this country, both the economy and the stock market will suffer, then it becomes a matter of attempting to estimate its severity and duration. Judging from the market action over the past several days, investors are assuming the worst.

**What's an Investor to Do?** First, take a deep breath. Although the stock market has had a protracted rise of more than ten years, market setbacks are inevitable, and they can be especially painful after such a lengthy rise. The stock market's dramatic response (a ten percent plunge in five days) to the worldwide concern over the coronavirus is enough to stun most investors, particularly those who may feel overexposed to stocks. Before taking any drastic action, remember that 2019 was an excellent year for stocks with gains exceeding 20 percent, so from a long-term perspective many portfolios remain ahead of where they were at the beginning of 2019. It is always a good idea to consider rebalancing a portfolio at the beginning of a new year. If that did not happen, there may still be select situations worth selling to lessen the risk in the portfolio to a level consistent with ones ability to cope with the current high-risk environment. Most stock investors should view their holdings as long term commitments of at least five years, so there will be periods when market returns are negative and a person's resolve is tested. Now is a prime example of such a time. Using history as a guide, the wisest advice is to hold tight and wait for the dust to settle.

**Coronavirus- Next Phase -** At this point, the vast majority of cases outside of China have occurred in five countries (Korea, Japan, Italy, Iran and Singapore). Those countries account for 84 percent of the 2227 confirmed cases ex-China as of February 26. Both the World Health Organization (U.N.) and the Center for Disease Control C.D.C. – U.S.) expect the virus to continue to spread and more than likely reach the stage of a pandemic. It appears the experts familiar with such diseases have determined it is best to provide the public a cautious, yet firm prediction of the certain spread of the disease. Their sobering stance likely is a reflection of the ease of transmission of the disease and the fact developed counties have been so slow to adopt counter-measures to stem the spread of the virus. In addition, lesser-developed counties do not have sufficient infrastructure or financial resources to provide adequate protection for their populations. Therefore, each country must do the best they can to limit transmission of the virus within in its own borders as well as guard against allowing anyone suspected of being infected to enter the country or for that matter to travel elsewhere. Although it may be tempting to assume the virus can be controlled , the scope of the problem is complex enough to appreciate why the C.D.C and W.H.O. are advising everyone to be aware of the realities of the situation and to adjust their plans and actions if needed.

The final quarter of 2019 finished with a flourish led by a strong stock market finish and supported by an upbeat consumer, who has benefited from increasing income and low unemployment across all segments of the population. The outlook for 2020 is for continued growth, although at a moderate pace of two percent. This modest rate of increase reflects the drag caused by the tariff disagreement with China as well as the impact of a slowdown in the industrial sector related to China trade and the production halt of Boeing's 737 MAX, which has had a significant ripple effect throughout the industrial sector. Investors need to consider whether the profit expectations for the year ahead are sufficient to propel the stock market to the next level. This calculation has been further complicated by the slowdown in economic activity resulting from the growing coronavirus threat. A number of large corporations, including Microsoft, Visa, and General Electric, have recently indicated they are reducing their earnings projections for the year. These reductions contributed to the increased volatility in the stock market.

Interest rates have reached historic lows. A recent report stated the interest rate for the ten year U.S. Treasury Note has dropped below one percent - a level not experienced in 150 years! To many fixed income investors this represents a seismic shift in the marketplace requiring them to adjust their attitude toward fixed income investments. Formerly these investments provided safety and a reliable income stream, that will no longer be the case. Government debt obligations will continue to represent the gold standard for safety, yet they will provide little or no income. Now for the real shocker, interest rates can be expected to continue to decline. If that does occur, investors may be forced to cope with negative interest rates. Investors are now seeing why it can be advisable to retain a reasonable level of liquid assets in their allocation decision (e.g., 10-20%) depending on their age and risk tolerance. This provides several advantages: first a source of funds for emergencies, a supplementary source of income, and a buffer to help soften the pain of a steep decline such as is occurring now. Although the experts are concerned about the progression of the virus, it remains to be seen if the conditions in this country will deteriorate into a major health catastrophe with an alarming number of deaths. Unless it reaches such a critical level, it is difficult to justify the indiscriminate selling currently occurring in the stock market. If the price volatility experienced over the past few weeks is a great concern, let us know so adjustments can be made to reduce your unease.

**Taxes Too! –**With the tax filing deadline quickly approaching, remember to examine last years results to help plan for actions this year, which offer the potential to reduce this year's tax liability. Some specific ideas for 2020 will be offered in our next letter. JML