

Silver Linings from Covid-19

April 2020

*“Ah, Hope! What would life be, stripped of thy encouraging smiles, that teach us to look behind the dark clouds of today for the golden beams that are to gild the morrow.” –
Susanna Moodie*

My daughter Brenna and I were talking the other day about how surreal the world is right now, and quite frankly I might have been sadder than I otherwise was but for the fact that I see it as part of my job to try to keep a smile on her face (this is pretty scary stuff for everyone, much less a 19-year old girl who desperately misses her friends). I found myself giving her a refresher on what I tell myself every day: that the one thing you can absolutely control, and change, in this world is how you think and feel about something. I also told her that there are always silver linings, even when the clouds are dark – sometimes we just need to look a little harder. Like when I asked a coffee shop owner last weekend how she was faring, and she told me about a man who bought one hundred lattes from her that day to help pay it forward.

That being said, make no mistake about it, this time is different. As much as I hate that phrase, we have never before encountered a global pandemic that has brought the world to its knees so quickly. But we have endured, survived, and thrived through other catastrophes, financial and otherwise. And though we believe this recession may cut deeper and last longer than some estimate, it will probably not be as dire as other historical events; the silver lining to having gone through other financial debacles is that we learned some helpful lessons.

For instance, the government’s reaction to this crisis has been far swifter and heavy-handed; within just the last thirty days the Federal Reserve and federal legislators have introduced unprecedented and massive measures to curb this crisis, the likes of which were not employed in the Great Recession ten years ago. As for the doomsayers who are comparing this to the Great Depression, it’s important to remember that the government has obviously learned from the mistakes that exacerbated the Great Depression; after the market crash in 1929, the Federal Reserve actually tightened monetary policy while the federal government increased taxes and cut spending.

In contrast, The CARES Act, signed into law on March 28th, not only provides massive stimulus but significant tax relief as well, including the suspension/elimination of this year’s Required Minimum Distributions (RMDs) for all types of IRAs, 401(k)s, SEPs, 403(b)s, etc (on a separate note, we will continue to forward information to you regarding new legislation as we receive it, as well as clarification on topics such as if people who have already taken their 2020 RMD can replace those funds - currently

the only people able to do so are within a 60-day rollover window or had a qualifying Coronavirus-Related Distribution).

History has also provided us with timeless lessons on how to react, or better yet, how not to react. We know from the past that attempts to time the market are futile and may only help ensure you potentially miss some of the best days within the market, thus irrevocably hurting your long-term results. Maybe this is why Benjamin Graham, Warren Buffet's mentor, said that "[t]he investor who permits himself to be stampeded or unduly worried by unjustified market declines in his holdings is perversely transforming his basic advantage into a basic disadvantage." You see, true investors in long-term assets such as stock are *always* expecting a positive future return, so it's important to remember that as risk increases during a time of heightened uncertainty, like we have now, so do the returns investors demand for bearing that risk - the lower price due to the heightened uncertainty is simply the reciprocal estimate of those who still expect a positive future return.

Please also remember that although we manage a lot of money for our clients, we are first and foremost financial planners, which explains why we have always planned for something to go right and for something to go wrong; we preached and practiced this approach in the late 1990's before the Tech Crash, in the early 2000's before the Great Recession, and for the last ten years before this pandemic hit (PS, I've been in this business for twenty-four years this month, which makes me feel proud, and old!). And part of this planning includes the following lessons (borrowed from my recent email): "If you own stock, then you should have at least a ten year holding period, which can help make the years in between less relevant; two, market timing does *not* work, so it does *not* make sense to make short term changes to long term assets based on anyone's short term outlook, ours included; and three, we remain convinced (based on our planning philosophy and research) that things will get better and we'll come out of this in fine shape, just as we did the Tech Crash, 9/11, and the Great Recession."

Last but not least, make sure you always look for silver linings; if you try hard enough, I promise you will see the sun shine through even in the darkest days. And go do something unexpected for someone else; not only may you help them get through a tough ordeal such as this pandemic, but you might just become their silver lining – a wonderful feeling in good times and bad!

As always, thanks so much for your friendship and trust - and take care!

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