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CORONAVIRUS SPECIAL EDITION

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I started writing my newsletter during "The Great Recession" in 2008 because I thought clients would appreciate an explanation of what was happening in the financial markets written in plain English. In 2015 I changed from a quarterly newsletter to semi-annual because there wasn't much to write about. Boy have things changed!

Over the last twenty-seven years I have learned who I can trust and have been watching, reading, and listening for countless hours to their opinions about what to expect and; therefore, how to respond to the worldwide Coronavirus pandemic. Most people should do nothing! You're probably tired of me telling you that you shouldn't invest in stocks, or for that matter, real estate if you are going to need your money in three to five years. This is because no one knows when we will have a recession, climate change, or even a war in time to sell before asset prices fall or how far they may fall. But, "This too shall pass."

Since time immemorable humans have adapted to or figured out how to solve every obstacle we have confronted, and this time will be no different. Usually we figure it out in a year or two and have fully recovered within five years. One of my favorite stock mutual fund investments, Investment Company of America has recovered 93% of the time within five years going back to 1934. Now of course, the future may be different, but the past is all we have to work with.

Recently I was on a webinar with Dr. Jeremy Siegel, author of "Stocks for the Long Run" and "The Future for Investors", and he made some very good observations. He thinks we will look back in two years and be glad we didn't sell our stocks. Stocks are selling for about fifteen times what they earn annually, the average over the last hundred years, which is called 15 PE (price to earnings ratio). This means that if their earnings don't change and you owned the entire company on average you would make 6.7% annually, but most companies increase their earnings over time so your earnings should increase also. What was enlightening to me is that we are paying for fifteen years of earnings and although we may not have any earnings this year, we should still have the other fourteen years of earnings and this will probably be just a hiccup in earnings. So, we may lose our 6.7% earnings for this year, but over 90% of the earnings that we are paying for is for earnings in 2021 and thereafter.

This recession will be different than the last. For one, our economy and people's financial situation were very healthy when this pandemic hit. A good analogy to our situation is that doctors say that the best determinate of a person's ability to recover from their illness is how healthy they were at the time they contracted the illness. Similarly, the American economy was very healthy when this Coronavirus hit, maybe even the healthiest ever, with record low unemployment, record high household net worth, low inflation, low interest rates etc., etc. Unlike the last recession when we lost tens of trillions in home value, in this recession home prices are holding up very well. This is a planned recession in order to defeat the invisible enemy in this war by stopping or at least slowing the spread of the Coronavirus. We will win, it is only a matter of time. It is hoped and probable that this virus is seasonal like the flu and the coming of summer will wipe it out. If not, we will come up with a vaccine like we did for Polio, Measles, and other viruses.

Call me at (503) 668-2530 if you have any concerns or if your financial situation has changed. We are not helpless and there are solutions to almost any problems. The worst thing you can do is to succumb to your emotions. I have a cure for most emotional stress, which is to calculate the numbers and bring logic to the table.

Your Friend, Bob