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INVESTMENT COMMENTARY
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The spread of the coronavirus has caused heightened volatility and a sudden and steep downturn for stocks. Investors do not like uncertainty and the coronavirus has caused fear and uncertainty. No one knows the length or depth of this health problem.

As of Friday February 28th, the S&P 500 had declined 8.27% year-to-date and 12.28% since its peak on February 19th. Small cap value stocks have declined over 14% year-to-date. The market declined as much or more in the fourth quarter of 2018, but this decline came in one week versus three months.

Economically, supply chains have been seriously impacted as many companies depend on China and other parts of Asia for products. Consumer activity in China, South Korea, Japan, and other countries that have been most severely impacted has slowed considerably. Global travel has slowed.

On Friday, the Federal Reserve stated that it was prepared to take whatever action they felt was necessary to help the economy. The statement caused a late rally in stocks, which may continue, but we believe these potential actions will have no lasting impact if the virus continues to spread and is not contained.

The key issue is how long and far the virus spreads. Consumer spending in the U.S. has been the key support to economic growth. If this spending takes a hit, a recession, likely short term, could ensue. Recessionary conditions are likely in other areas around the world.

While the virus is a legitimate and serious concern, we believe this is a transitory problem. Unlike the 2008 financial crisis, where banks and others were severely impacted with lasting negative economic effects, this will end. When the virus is contained or eradicated, the economy will recover and stocks will or will have rallied sharply. It may take months or longer, but the economy is highly likely to return to its prior condition.

That is not to say all companies will emerge unscathed. Some U.S. firms are overlevered and may not survive a quarter or two of depressed revenues. Many of these companies borrow in the high yield or "leveraged loan" markets, two areas we studiously avoid. We are happy to say the money managers we utilize do not own such businesses.

Selling stocks and raising cash can be tempting, but has its risks because paper losses become permanent, unless you get back in the market at the right time. It also has costs in personal (non-IRA) accounts, since stock sales usually generate capital gains. For our clients who take distributions, we have enough invested in bonds or cash equivalents to cover the distributions for a prolonged period. We are long term investors, not traders, and believe in the long term viability of owning equities.

During the 2008 financial crisis, the general market declined approximately 55% from top to bottom. Our clients recovered in 2 - 3 years at most. That was the worst financial crisis of our lifetimes. While we are not making light of the effects of this virus on people's lives, as we are assuming it will get worse before it gets better but do not think this will have the lasting effect the way the financial crisis did.

We welcome your calls to discuss your personal situation if that will help. Most importantly, best wishes for good health!!

The Portfolio Strategy Group, LLC