Wealth COACH Financial Services Inc.

To: All Investors

From: Mike Sullivan

Date: March 7, 2020

Re: **Market Sell-Off - Update**

So … it looks like it is time again for market updates!

The human toll of the Coronavirus is indeed tragic, and the number of cases of people battling the illness and those who have died as a result of are serious matters. Investment-wise, it is decidedly too early to determine what the ultimate economic and market impact of the Coronavirus will be, but as stated in our earlier Update there is a real negative impact coming to corporate revenue lines and to their earnings near-term.

Markets are caught in between the negative results forthcoming, and yet another episode of the relentless interventions of central banks. The latest episode of central bank 'support' (intervention) occurred Tuesday when the Federal Reserve announced an 'Emergency Rate Cut' … so called because it came between formal Fed meetings.

The immediate effect of the cut was to spook markets which subsequently gyrated wildly all week with the Dow Jones Industrial Average closing up, then down, then up, then down, in more or less 1,000 point gains or losses. Wild. Here is a look at how the S&P 500 has responded to similar Emergency Rate Cuts over the past two decades:

Figure 2: S&P 500 returns in periods after the Fed emergency cuts

		S&P 500 Returns		
Cut size	Emergency Rate Cut Date by Fed	1W	6M	1Yr
50bps	8-Oct-08	-8.9%	-17.2%	7.0%
75bps	22-Jan-08	2.8%	-3.6%	-37.6%
50bps	17-Aug-07	4.8%	-4.3%	-9.4%
50bps	17-Sep-01	-8.2%	6.7%	-20.0%
50bps	18-Apr-01	3.1%	-9.6%	-5.7%
50bps	3-Jan-01	2.3%	-5.0%	-9.2%
25bps	15-Oct-98	7.3%	31.6%	24.1%
	Average	0.5%	-0.2%	-7.3%
	Median	**2.8%**	**-4.3%**	**-9.2%**

Source : Deutsche Bank, Bloomberg

What ultimately matters fundamentally to stocks is how the Coronavirus develops, and the length to which it harms people and forces them into hiding, therefore unable to consume at their normal pace. If they do not continue to consume, obviously then the revenue and earnings that naturally drive corporate stock prices will decline further.

So … the trick here for investors, as we have seen for the last decade, is to determine whether any declines in corporate revenue and earnings might be successfully overcome by the now totally routine and wildly massive interventions by central banks as they relentlessly create more and more debt-based money that can be thrown at assets.

As a result of this week's Emergency Rate Cut, the yield (the cost of money) on Ten Year U.S. government bonds sits at all-time lows of **0.73%** as we write this update!

Who better to put that in perspective than Warren Buffett, the famed Billionaire investor and Chairman of Berkshire Hathaway? In an interview last week, Buffett pointed out the utter insanity of the current situation.

> *"What the government is saying is they will borrow your money for **ten years**, and pay you (then) 1.4% for it. At the same time, they tell us they are doing everything possible to cause inflation at a target of 2%. That doesn't sound like a good deal to me."* (1h,33m)

You can watch the whole interview here: https://www.youtube.com/watch?v=JvEas_zZ4fM

In plain English, the government wants our paper money, but now will pay us only ***0.73%***, while they try to destroy the purchasing power of the money at 2.00% per year!

Importantly, Buffet also indicates he doesn't mind when stocks decline because he would rather buy them on sale. Note, he does not say 'buy them now', but for younger investors with long-term time horizons, that is a good lesson from a master investor to keep in mind: lower share prices of course mean you buy them cheaper.

Is here where to buy … or sell? After Buffett announced he likes to buy in 2008, markets went considerably lower, first. The key thing for aggressive investors to consider today is the current balance of your accounts, and the dollar value of a repeat of the more damaging market declines like the 2001 Tech Wreck and 2008 Housing Bubble collapse where a year later the S&P 500 was down 20% and 37% respectively. If that number is disturbing, rotating to a more conservative allocation may be prudent for you.

If you are a less aggressive investor, expect a struggle with market psychology. The Fed has convinced everyone it will always rescue everything. 2008 and 2001 saw different. And this time around, rates are already ***at*** historic lows. That leaves the Fed's only trick as money-printing, outside of directly buying stocks themselves, which they may. Sound absurd? It is not! So, the psychological battle will involve wanting to wait for account balances to 'just return to the 2019 year-end levels'. But that tactic proved quite detrimental in 2001 and 2008, leading those investors on the entire ride down. If you are over 50, you may choose to not go that route considering the level of absurdity today.

Circling back to the villain of the day, the Coronavirus, Mr. Buffet further indicated that the upcoming Berkshire Hathaway annual meeting held in Omaha every year (and attended by shareholders and investment professionals from across the globe) will not be canceled at this point. But they may cancel some of the events that surround it, like the annual Barbeque for instance. Sounds prudent, but down go his Heinz sauce revenues!

We again favor caution here.