

Market Note

March 16, 2020

This note will be limited to three paragraphs. The most important thing to focus on today is your health. With regard to investments, any asset allocation should anticipate the level of market turmoil that we are going through and levels of turmoil that are even worse. This is not new territory for us. You have enough cash and bonds in your portfolio to take care of any needs you may have for the next few years if not longer. Markets will work themselves out. Prices today do not reflect the long-term value of businesses. Markets will not allow businesses that generate cash flows to remain too cheap for too long. And businesses are dynamic entities that are constantly changing and adapting to new environments.

The coronavirus is a serious virus. The actual mortality rate is still unknown, but best-case scenarios are still materially worse than the flu, and that alone suggests that we all take necessary precautions to avoid both exposure and transmission. In theory, all we have to do is to avoid touching our eyes, nose and mouth. This is good news since this should be largely under our control. The difficulty is the extent that we do this without knowing it. This is why hand washing is important, and for those in higher risk groups, consideration should be given to avoid crowds of people. When you do go out in public, have a way to clean your hands if you touch gas pumps, door handles, shopping carts, etc. And clean your phones, which can act a little virus backpacks.

The market this morning will be quite weak. Uncertainty was already running high, but over the weekend the news of conflict between Saudi Arabia and Russia has caused another source of uncertainty. Saudi Arabia was attempting to cut oil production to help stabilize or increase oil prices. Russia refused, and Saudi Arabia responded by stating that they were going to flood the market with oil to collapse prices. This will likely cause damage if this continues for any length of time. It raises the potential for the markets to be messier for longer, and it also throws another bundle of fear on the bonfire.