# Market Update- March 11, 2020

## What is transpiring?

FEAR.

The coronavirus has triggered a panic in the market that we have not seen since 2008. Emotions drive markets, and we are seeing that now. But we've been through major panics before. The difference (minus the unknowns of the virus) is that people have less faith in the Fed's ability to provide stability to the economy and that is a real issue. The ammunition to reduce rates that I have spoken of at length over the past 2 years, is gone.

Just knowing that there are some bullets in the holster normally provides ballast. But rates are already at zero. To make things worse, over the weekend, the market lost faith in OPEC not reaching a oil production deal and oil prices tanked 30%.

My largest fear in terms of a worldwide financial chock has always been some type of civil unrest globally coupled with major misinformation, or a liquidity or technology disruptor/attack, or debt/Chinese financial event that could "derail the system." As an advisor you think about things like this in an effort to prepare the client as much as possible. We have emotions too. And while this event is a virus, this is a multi-layer problem that includes some of the aforementioned which requires vast resources in many aspects.

## What now?

This is a time to continue to have a level-head. Panic and fear do no good in markets, or life. A lack of leadership and cohesiveness in Washington exacerbates this issue greatly. That is also out of our control.

However, your portfolios are disciplined and strategic. We have taken proactive measures prior to this outbreak to reduce stock risk for many over the last 18-24 months because the risk reward simply didn't make sense. With very broad strokes and on a case by case basis, you lock in gains and rebalance while the market goes up.

No one knows how this will ultimately play out. But I have full faith in the First Eagle Funds and our other investment partners who have performed well during the worst types of distress. In terms of First Eagle (referring to the Global Fund), I was with them in NYC last week. A reminder that:

- They hold gold bullion and gold stocks as insurance against future uncertainty. (15% currently)
- They hold cash as a buffer to allow them to buy when there is opportunity. (15% currently)
- They have NO direct holdings in China.
- They held less than 5% in tech during the tech bubble (the market was 33% tech), and less than 2% in financials prior to the financial crisis (the market was 26% banks.) Source: FE Investor Guide – #3
- They are likely buying now with the market in free-fall. They were net sellers last year when everyone wanted more equities. They were net sellers prior to the financial crisis when things seemed ok. They were net buyers from 2007-2009 during the financial crisis. Professional money managers find dislocation and opportunity in equities long term and this normally arises during times of distress. No one knows where the market is heading tomorrow and you must have a disciplined investment philosophy in place at all times. Source: First Eagle Global Investor Guide December 31, 2019
- Please click on the following link for more in-depth information on the First Eagle Global Fund.

## Remember - It's about you…NOT the Market

Your individual goals and buckets for spending are the real key. This should always be your guide. We understand your situation, and for many, there are 10 years of income inside of your portfolio that is out of the stock market. This means that we aren't forced to sell your stock positions (that we're obviously losing money on right now) …for 10 years. Therefore, you do not needlessly sell into this type of panic. That would be foolish. People that don't have real plan or think that they can time the market will sell. But your cash, CD's, treasuries, short term bonds, intermediate bonds, etc. should hold up, and provide income for many years. (On your statements this may be CD's, Vanguard Short Term Corp, Vanguard Treasury, Lord Abbett Short Duration, Dodge and Cox Income, Metropolitan West Total Return Bond, PIMCO Low Duration, PIMCO Income, your money markets etc.)

## Our stance

A bold reminder that we have been more conservative for the past 18-24 months as this bull market was sunsetting. Staying diversified across all asset classes is important. Bonds have seemingly looked like a bad asset class for years with rates that seemingly couldn't go lower. But they did. Right now, we are glad to have held them, even if the prospects moving forward are dimmer than ever. We remain very concerned with the overall credit markets in general.

Part of this selloff is not surprising to us and our recent newsletters back this. The trigger is surprising, but the selloff isn't. This economy could not keep chugging along regardless. The coronavirus trigger is an added major headwind to an already slowing economy. Supply chains have been crippled and travel essentially halted. Travel represents more than 10% of the world's GDP which is about 2x what I would have guessed. Source: Bloomberg March 8, 2020

I always like to track our largest stock fund positions during distress to see how they have fared vs the overall market Indexes. See the stats since the coronavirus since February 20th when this began:

**Major Indexes** (Source: Mstar March 9, 2020)

| | |
|---|---|
| S&P 500 INDEX | -18.6% |
| Dow JONES | -18.3% |
| World Index | -18.9% |
| NASDAQ | -18.3% |

**Staub Largest Fund Positions (with stock exposure)** (Source: MCams, Mstar, March 9, 2020)

| | |
|---|---|
| SGENX First Eagle Global A | -13.3% |
| FEBAX First Eagle Global Inc A | -9.5% |
| FPACX FPA Crescent | -14.7% |

**Market downturns happen frequently but don't last forever**
Standard & Poor's 500 Composite Index (1950-2019)

| Size of decline | -5% or more | -10% or more | -15% or more | -20% or more |
|---|---|---|---|---|
| Average frequency* | About three times per year | About once per year | About once every four years | About once every six years |
| Average length† | 43 days | 112 days | 262 days | 401 days |
| Last occurrence | August 2019 | December 2018 | December 2018 | December 2018 |

* Assumes 50% recovery of lost value.
† Measures market high to market low.

Sources: Capital Group, Standard & Poor's.

## Moving forward

I like to think that we come to grips with a new powerful flu. Early studies indicate that it is more deadly. Additional testing is likely to indicate a huge increase in the number of cases; therefore, we need to brace for that reality. But human beings adapt. That is what we do very well. You don't run and hide and freak out. You stand up to adversity and challenge it together with a well thought out plan lead by proven medical professionals, policy makers and business minds alike. We need a global response and a coordinated effort. Clear communication is a key driver in this.

Consistent with this thought, we will continue to provide as much clarity and information on this as possible. This is a worrisome time on many different levels. I was thinking of having an impromptu seminar but obviously don't want to commit to something by putting our clients at risk in a communal setting.

*However, if you are interested in attending something in the coming weeks, please email, Dana at* dcasteel@sigmarep.com. *I value your feedback.*

*In the meantime, we may offer a podcast or video link. Regardless, we promise to keep you posted and are working behind the scenes as much as possible to keep you protected and informed.*

Sincerely,
Corey and Dan