



How Do Pandemics Affect my Portfolio?

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Events around the world often effect how we perceive our investments. For example, when governments from various countries act in a hostile manner, we quite naturally become skeptical about the direction our world is going. And as a result, we then may become concerned about how that might affect our investments.

The reality is that throughout recent history, geopolitical events haven't necessarily seemed to affect the capital markets in a particularly meaningful way.

A more recent serious world event hasn't been between belligerent countries, although that does continue unabated as it always seems to. It concerns the outbreak of a new and seemingly virulent form of the flu, the Coronavirus. As at the time of this writing, the Coronavirus (COVID-19) had infected 79,339 people across 30 countries, of which there have been 2,619 deaths.^[1] Of those cases, 77,262 (97%) are in China where the virus was initiated.

This seems like a large number doesn't it? Perhaps we are correct to be fearful. You may even find yourself asking, how might this new disease impact the global economy and ultimately the savings and investments you need for retirement?

First, let's consider some facts. China's population is 1.4 billion people (Note: Canada's is 37.7 million or 0.0377 billion). According to macrotrends.net, the current death rate for China is a little over 7 deaths per 1000 people. That works out to 9.8 million people a year (approximately one quarter of the population of Canada), or 26,000 people a day. Canada's current death rate is actually a little higher at closer to 8 people per 1000. Of course given our much smaller population this means that about 300,000 people per year or 830 people per day die in Canada.

The point of this exercise is not to belittle the significance of the virus, but to put it in context. Of the 2619 Coronavirus deaths it also would be useful to know what percentage of those were concentrated in the very young and very old, i.e. those who are more susceptible to death arising from influenza based illnesses.

From an economic point of view, certainly precautions are being taken which may be affecting markets and harming industries in the short term, particularly those involved with trade in China; however, if those precautions result in better isolation and control of the spread of the virus, then industry should bounce back quicker once the virus runs its course.

Also, historically it's not been the best idea to base investment decisions on events such as potential pandemics.



Consider SARS in 2003. This was a pandemic that most Canadians are familiar with, particularly those who live in Toronto. Between November 2002 and July 2003, 8,098 cases (438 in Canada) of SARS were reported around the world and it resulted in 774 deaths (44 in Toronto). As significant as the fear over SARS was, the capital markets were unaffected. In fact they were booming following a two year bear market that was the result of a decline in the tech

sector during the “dot com” collapse that took place in 2001. In 2003, the S&P/TSX, the Dow Jones Industrial Average, the S&P 500, and the Nasdaq all went up by 24.29%, 25.32%, 26.38%, and 50.01% respectively. This occurred while SARS created widespread panic among people due to fearful reporting from the media.

Now consider a much larger global pandemic, HIV/AIDS. The death toll from HIV/AIDS is 36 million since 1981 and it's estimated that there are over 31 million people living with HIV today. However, due to improvements in medicine and treatments, people with the disease are living productive lives and the death rate has been declining. (source: <https://www.mphonline.org/worst-pandemics-in-history/>) If you had invested your portfolio in fear of the AIDS pandemic how much opportunity would you have missed out on?

There have been a few other flu based pandemics that have killed large numbers of people around the world in the 20th century; the most significant one was in 1918 where 20-50 million people died of the Spanish Flu (a form of H1N1). Of course, this took place before antibiotics were invented (Alexander Fleming discovered Penicillin in 1929). During this awful period, the capital markets, specifically the Dow Jones Industrial Average rose from 76.68 in January 2, 1918, to 82.60 on January 2, 1919, a return of 7.72%. (source: <http://www.fedprimerate.com/dow-jones-industrial-average-history-djia.htm>)

In conclusion, as concerning as viruses that can turn deadly can be, history tells us, they are not reasons to start adjusting our investment portfolios. That doesn't mean a conversation about your portfolio is a bad idea. It just means that we will never look at your portfolio from a position of fear. Rather, we approach you and your money the same way as we approach it with all of our clients; by considering your goals and objectives, the length of time that you need your money to last, and your tolerance for risk.

If you'd like to discuss this topic further or if you'd like us to perform a review of your portfolio in addition to your goals and objectives, please call us at (780) 426-2400, or e-mail us at gary.koss@manulifesecurities.ca to schedule an appointment.

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