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Coronavirus & Your Investments

It is said that stock markets are constantly climbing walls of worry.

They rise or fall on corporate earnings, economic news or a simple soundbite on CNN. Today however we may be facing something we haven't seen in living memory, the potential for a viral pandemic. Enter COVID-19, the official name for this particular coronavirus.

As I type, the Dow Jones is off about 3.0%. Markets around the world have been similarly roiled and buffeted. As unnerving as that may be, I wanted to take a more in- depth look at the virus itself, your investments and what strategy we might consider going forward.

COVID-19 is a viral disease which causes respiratory illness much like a bad cold or flu. The survival rate is currently about 99% worldwide. People most affected by the virus include the elderly and those with pre-existing medical conditions and compromised immunity.

Countries like Canada are better positioned to treat anyone contracting the virus. We have an adequate healthcare system and access to funds to help us cope with any eventuality related to the virus.

Conversely the virus would appear to be most lethal in countries that cannot provide a high level of care. Many African nations face a particularly daunting task if the virus takes hold on that continent.

We are not currently experiencing a pandemic and we may escape our worst fears however the stock markets are voicing their concerns. Should we heed their siren call?

Fear has no place in a well-constructed portfolio when times get tough. The temptation is to sell your stocks, ride this thing out & then buy back in when the world settles down once more.

Don't be tempted to give in to your fears. Most advisors worth their salt (including yours truly!) will be looking for investment opportunities in this environment. That may sound cruel to some, perhaps even mercenary, but it comes with the turf.

"Fearful when others are greedy and greedy when others are fearful."

Legendary value investor Warren Buffett, and man who has US$1bn for each year of his life (he'll be 90 in August), whilst he most certainly does not celebrate the effect the virus is having on society, is constantly looking to invest cash in excellent businesses at a reasonable price.

During the financial crisis of '08/'09 Berkshire Hathaway's own share price dropped from over $100 to around $44 at it's low. No doubt there were people who sold along the way. Those shares are now valued at $222, even after today's 3% drop[1].

My overarching point here is that timing the market as an ongoing investment strategy is almost impossible to do successfully. There are just too many variables starting with timing your re-entry to the market. As contrarian investors we must overcome our emotions & fears. In Buffett's own words we must be "Fearful when others are greedy and greedy when others are fearful."

We must consider ourselves firefighters, running into the building when everyone else is running out. When everyone else returns, it's time for us to leave.

In March 2009 the S&P500 index bottomed out at 666.79 after the financial crisis. Today it's trading at 3235.40[1]. I would argue that the crisis we face today, whilst clearly terrible for those who lose a loved one, isn't as systemically significant to the global economy as the collapse of the global banking system might have been in '08/'09.

Bottom line: Stay invested. If you have cash available for investment it may be time to don the firefighter gear and head into the building. I hope to see you there.

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"If you don't know where you are going, any road will get you there."
– Lewis Carroll, Alice in Wonderland

[1] Data obtained from Morningstar Advisor Workstation.