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Over the past several days, the market has delivered a sharp and painful selloff reminding us all that, indeed, markets do go down. Through the close on Friday, Feb. 28, the Standard & Poor's (S&P) 500 is down 12.5% (peak to trough). While the nature of selloffs is generally unexpected (otherwise the market would have already priced in the news), the lessons and themes of selloffs often repeat patterns from history. As Mark Twain was (falsely) quoted as saying, "the past doesn't repeat itself, but it rhymes."

As such, the note below attempts to provide some perspective on what we know, and what we don't know. Yet before we do so, it is important to underline the notion that we aren't epidemiologists. As obvious as that may seem, this notion perhaps gets at the essence of why the recent selloff has occurred, namely that the nature of exogenous shocks (of which Covid-19 is clearly one), is that they create uncertainty. Markets, as voting machines for individual investors, do not like uncertainty. Therefore, let's explore other events that, at least initially, seem to "rhyme in their uncertainty," and hopefully offer important perspective as this continues to unfold.

First, let us begin with a quick update on the nature of the crisis.

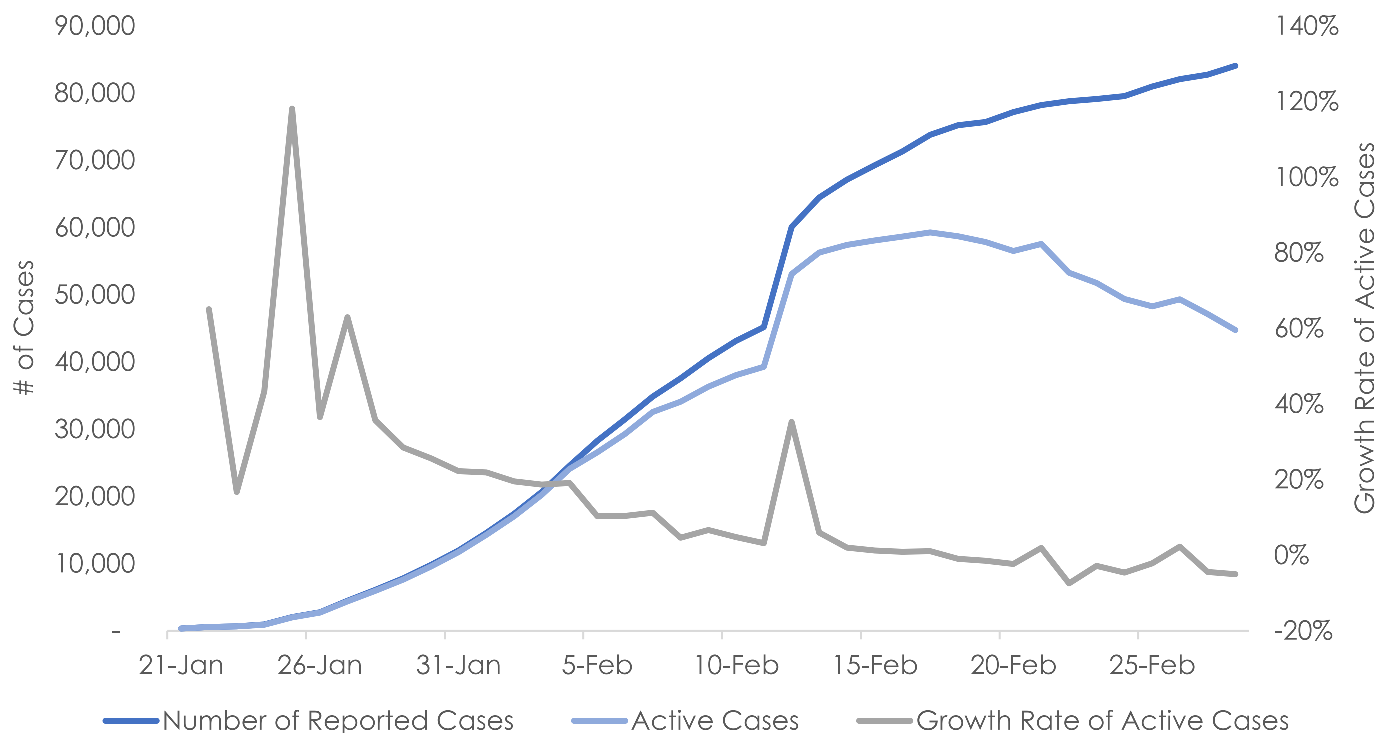
1) A pneumonia (now known as COVID-19) was first reported to the WHO Country Office on December 31st, 2019.
2) The outbreak was declared a Public Health Emergency of International Concern on January 30th, 2020[1].
3) The virus is now present on every continent except Antarctica, has infected nearly 90,000 people, and has killed more than 3,000 (the vast majority in China)[2].

As can be seen from those three bullets, it doesn't take much imagination to contemplate a much larger impact than currently experienced. On the other hand, for comparison, during the 2017-19 flu season, 45 million people were infected, and 61,000 people died.

Additionally, as shown by Chart 1 below, while the number of active cases continues to rise, the daily growth rate of those cases has continued to fall. This is a positive sign that perhaps this will not be as widespread as some imagine.

[1] https://www.who.int/emergencies/diseases/novel-coronavirus-2019
[2] https://www.nytimes.com/2020/03/02/world/coronavirus-news.html

Chart 1: COVID – 19 Worldwide Outbreak[3]

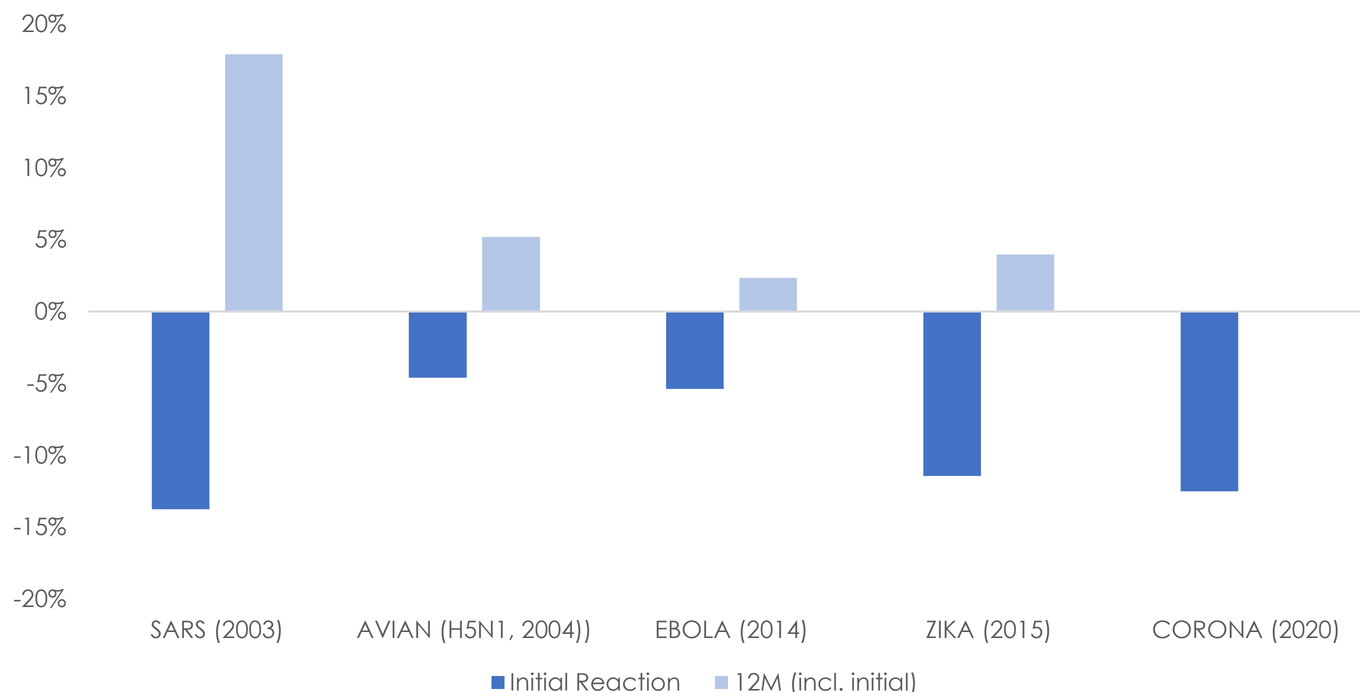


Therefore, from an epidemiological perspective, we have no view. An objective market observer could note there are plenty of negative signs and datasets (i.e., new countries, long incubation period, high fatality rate), while also noting there are many signs of optimism (i.e., declining growth rate, possibility for vaccines, warmer temperatures approaching).

With that said, from the markets' perspective, there have been other periods in history that had similar levels of uncertainty. SARS, Avian, ZIKA, Ebola, and others had initial market selloffs that were also significant, and yet generally recovered. Chart 2 demonstrates this dynamic.

[3] Sources: Bloomberg, World Health Organization

Chart 2: S&P Total Return from the beginning of the outbreak[4]



So, we are then stuck with two core truths: 1) we are in the midst of an exogenous shock which could be accelerating or decelerating—no one really knows, and 2) historically, these sorts of exogenous shocks generally sell off initially, and then recover over time.

What, then, are we, as investors, to do?

1) **Stay focused on the long term.** First, and foremost, recognize that selloffs in the short term are common and allow us to capture large market returns as occurred in years like 2019. While this could get worse, as long-term investors, one of our only true advantages is patience, and avoiding the tendency to act when logic tells us otherwise. As the saying goes, "more money has been lost waiting for markets to crash, than has actually been lost during market crashes."

   We mentioned it during our January letter, but it is worth remembering: Missing the best four days of the year in the S&P 500 during the years between 1996 and 2019 turned a positive 9% annual return into a negative 6%!

2) **Remain focused on what can be controlled.** Thoughtful investment oversight, good planning, minimizing expenses and taxes can be controlled. These are items that should be focused on with your investment professional; trying to pick market tops and bottoms should not. The world has uncertainty, and we, as capital providers, incur risk in order to benefit from the uncertainty. Occasionally those risks result in selloffs but, over the long time period, investors have benefitted.

[4] Sources: Bloomberg

3) **Recognize the utility of diversification.** Lastly, this is precisely why we have built conservative and diversified portfolios. As equities have come down, bonds (and in some cases alternatives) have generally gone up. As such, the aggregate experience should allow us as investors to benefit from most of the upside, without suffering the depth of the equity market selloffs and volatility.

In closing, we remain at your service, and watching closely. Please let us or your investment professional know how we can serve you.

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