GREYCOURT

Dear Friends of Greycourt: March 10, 2020

Given the recent market volatility driven primarily by the outbreak of COVID-19 (coronavirus disease) we want to send you our current views.

First, it is extremely difficult for anyone, let alone laypersons like our clients and us, to know how serious COVID-19 may become. To suggest the difficulty of dimensionalizing the issue, consider that we would need to know, with at least some degree of certainty (a) what the penetration of the disease will be, (b) what the case fatality rate and eventual population mortality rate will be, (c) what the economic impact will be from morbidity, mortality, and from fear itself, and (d) what the probability and timing of a cure, effective treatment or vaccine might be.

We could speculate about these issues endlessly, but that's just the problem – we can't know. This uncertainty creates fear, it is fear that creates panic, and it is the panic that causes us to take actions that will compromise the wealth of our families for years to come.

As in every difficult market environment in history there are many reasons to imagine that "this time is different," this time we will enter a Depression. After all, stocks were selling at elevated prices before the drawdown. Oil prices are collapsing. Liquidity is a concern, especially in credit markets. The 10-year Treasury is yielding under 1%.

But we would note that, since the New York Stock Exchange was founded under a buttonwood tree in 1792 it has always been the case that the wisest move was to remain invested, with one exception: early in the Great Depression. If you believe that a flu-like virus that has infected 572 people out of a population of 330 million in America is going to cause the next Great Depression, then you should sell everything, pay your taxes, and own cash.

But if you believe that we are not likely to enter another Depression, you should, instead, look to your asset allocation strategy. Every Greycourt client has one, and for a reason: to keep us from doing the wrong thing at the wrong time. Thus, we analyze the issue like this:

First be sure you have enough high-quality fixed income (money market funds, municipal bonds or Treasuries) to cover your spending for three years. Bear Markets very rarely last longer than that and a robust bond portfolio will allow you to meet your spending needs without selling beaten-down equities and immortalizing your losses (to say nothing of incurring significant tax costs).

Second, assuming your bond portfolio is in place you should look at your current asset allocation and consider rebalancing. If you are below your equity targets consider buying enough equities to get back at least to your minimum equity target and, even better, to your target allocation.

On the other hand, if you are above your equity targets you might consider selling down to your maximum range to book profits before they (maybe) go away.

Third, there is one trade that you might consider now. Treasury and municipal bond yields have fallen to all-time lows and it seems reasonable to expect that rates will rise once economic conditions normalize. Hence, clients might consider taking profits on highly appreciated bond positions and holding the proceeds in a combination of cash and low volatility diversifying strategies.

These recommendations are based on two assumptions. First, that Greycourt's clients are investing dynastically, and therefore what happens in the next quarter or next year simply doesn't matter.

Second, that owning a diversified portfolio of US equities means that we own the US economy, the most robust and dynamic economy in the world – indeed, in the history of the world. That economy will have its ups and downs, but over the long term – over a dynastic period of time – it will create wealth for our families. The same is true, to a slightly lesser degree, for other free market economies elsewhere in the world.

Please don't hesitate to contact us if you have questions or concerns, would like to discuss your portfolio with your advisor or would like to explore the ideas outlined above. A more detailed market outlook is being prepared by our tactical team, led by our CIO Jim Foster, and it will be distributed in the coming weeks.

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Greg is the author of *Spitting Into the Wind* (2018), *Family Capital (2017)*, *The Stewardship of Wealth (2013)* and *Creative Capital (2004)*, as well as five other books. His popular blog is available at *GregoryDCurtis.com/Blog* and *PittsburghQuarterly.com.*