LEWIS WEALTH MANAGEMENT

Newsletter

April 10, 2020

Executive Summary

The recent news has been particularly grim and our anxiety level is very high. To get to the other side of this pandemic, it is helpful to compartmentalize. That is, to separate the health and economic concerns that we may have and work through the issues one at a time.

From a health standpoint, it is a difficult time. This pandemic will end someday, but we will have to muddle through it over the following weeks and months. There is some indication that social distancing is starting to flatten the curve.

From a financial standpoint, we must focus on the long term, not the next news cycle. When you start looking two, three and five years out, today's economic anxieties are put into proper perspective. Rebalance your asset allocation. Diversify and make sure you are comfortable holding your investments for a long period of time. Then apply lots of patience and discipline and you will come out ahead in the long run.

To quote Winston Churchill, we may not be at the beginning of the end of this thing, but we may be at the end of the beginning.

Lewis Wealth Management
8480 E. Orchard Road, Suite 5550
Greenwood Village, CO 80111
(855) 353-3800
Austin@LewisWM.com
www.LewisWM.com

The recent news has been particularly grim and our overall level of anxiety is very high. Every time I turn on the news, the coverage is focused on death counts, hospital ships, refrigerated trucks and body bags as the media is going to focus on the most dire parts of this crisis.

We must compartmentalize.

We have to look at the epidemiological curve of this awful pandemic and examine our health and economic concerns separately and how they will evolve over time. Although I hate forecasting, here is what I think we may see in the coming months and what that means for our investment portfolios. I could be wrong, but here it goes.

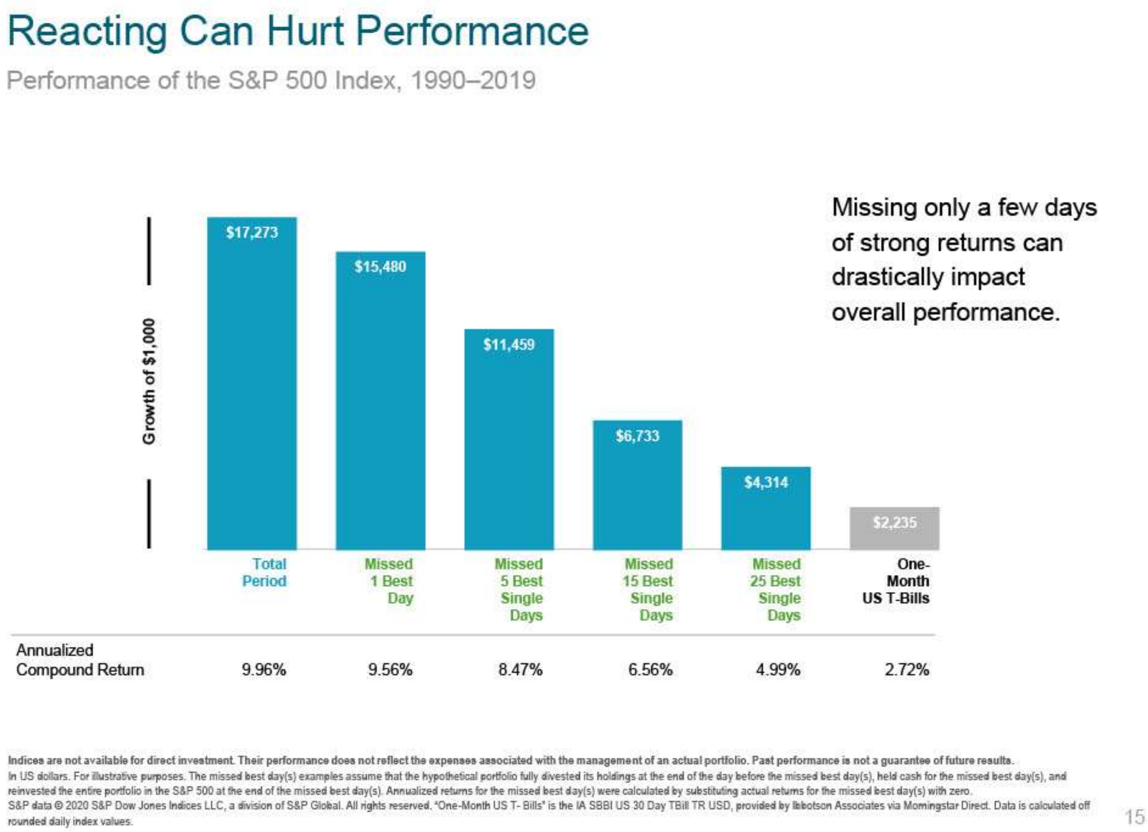
Right now, we are working our way up the curve.

From a health standpoint, it's terrifying. We are being told that in the next several weeks, thousands of Americans will probably die and parts of our healthcare system will be overwhelmed. April and May are not going to be good.

On top of all that, we must keep our distance from friends and loved ones – our main source of comfort.

From a financial standpoint, for the first time in our history, we have voluntarily shut down major parts of our economy to save lives. Economic data is starting to come in and it is startling. We are likely in a recession. Three weeks ago, we saw historic declines in the stock market. In the last two weeks, we saw historic advances. To be sure, the market has already priced in a lot of this pain.

This type of volatility is normal during a bear market. Entering in and pulling out of the market right now can be very hazardous for your for long-term return. There are often large rallies that take place during a bear market and it is critical to capture these events. Look at this chart from Dimensional that shows if you miss a few critical trading days, your long-term return can be cut in half.



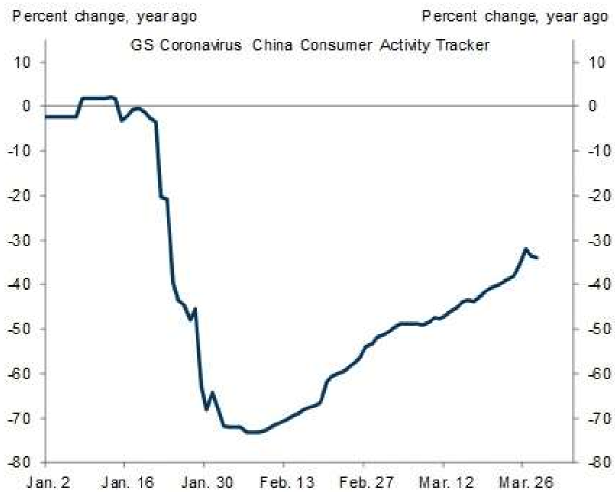
But there is also good news to report. The federal government quickly passed the largest fiscal stimulus package in history. The Federal Reserve reduced interest rates to zero and has been aggressively supporting the markets with needed liquidity and lending facilities. All this has been done in record time.

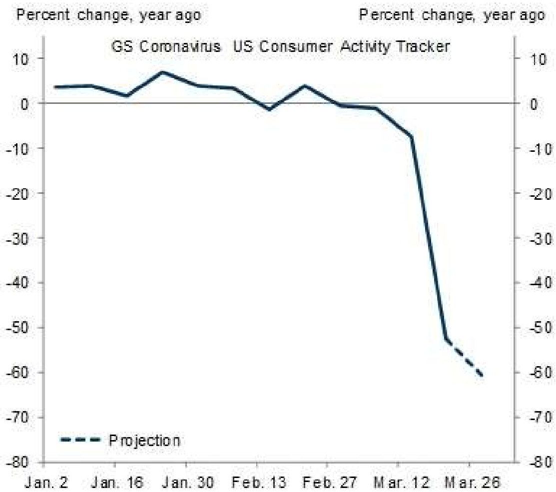
Additionally, we are also starting to see signs that social distancing is flattening the curve of this awful disease. This is encouraging.

But what happens when we get to the other side of the curve in a few short weeks?

From a health standpoint, the number of new cases and deaths will slowly come down. We will probably have a better testing protocol. We will enter the "whack-a-mole" phase where we engage in proactive testing, contact tracing and isolated lockdowns. We will slowly come out of our homes and return to work. Further down the road, a vaccine may be available this time next year and that may be the end of this pandemic. We'll see.

From a financial standpoint, economic and employment activity will start to increase. Last week, Goldman Sachs published a current look at China's economic activity (China is on the left, we are on the right). As you can see, China's economic activity is steadily increasing. We may be only a few weeks behind them.





The fiscal and monetary stimulus that was recently passed will help accelerate economic momentum. The business of cleaning up the financial damage will begin. The economy will slowly flicker on to life, like a dimmer switch being turned on. Financial markets will stabilize and have already started their recovery.

Of course, there could be surprises on the upside. Warmer weather may curtail the virus for a time, there could be breakthrough drug therapies, and a vaccine may arrive early. And, in case you haven't noticed, businesses are quickly adapting to new market conditions.

Shockingly, I believe this will all happen in the course of the next 12 months. Yes, there will be some lasting damage and even our way of life may be forever altered. ***But this pandemic will surely end.***

What does all this mean for our investment portfolios?

Right now, it's all about investment discipline. It's easy to say we will be disciplined when all is clear and calm. But when a real disaster hits, this is where the rubber meets the road. How are you doing?

Trying to manage your portfolio from one news cycle to the next is impossible. In fact, trying to manage your investments for one week, one month, or even one year is pure folly. There are so many questions with no certain answers. Has the market bottomed? Will there be another leg down? When will our economy come back to life? How long will all this take? It goes on and on.

If you are stuck thinking about these things, I would encourage you to start thinking about the next two, three, four and five years and how you will reach your long-term financial goals. This will help you put today's economic anxieties into their proper perspective. Decisions and discipline become much, much easier.

Stick to your long-term asset allocation and make sure your portfolio is well diversified. If your portfolio is out of balance (like it is right now), rebalance. If markets move down, rebalance again. Look at the investments inside your portfolio and make sure they are sound, well diversified, and that you really want to hold them for a long period of time. If you need to make a few changes, make them. Then, apply lots of patience and discipline and you will come out ahead in the long run.

Remember, your investment horizon is your lifetime. In the financial plans that I design, I frequently use the age of 90 for a client's life expectancy. That means unless you are over the age of 85, you are still a long-term investor.

Markets are resilient and they will recover – as they have after every crisis we have ever faced. ***So, let's not be news cycle investors or let our anxiety get the best of us***.

To quote Winston Churchill, we may not be at the beginning of the end of this thing, but we may be at the end of the beginning.

I hope this newsletter finds you safe and well. Please reach out with your investment questions and concerns.

Thank you.

D. Austin Lewis