FEARING FEAR OR FEARING THE MARKETS...

Epidemiology is the study of infectious disease and how it affects populations. It might also be the fastest growing interest among investors as markets continue to react to the spread of the coronavirus, now officially called COVID-19. As fear grips markets, investors seek out the oracles for advice.

"Be fearful when others are greedy and greedy when others are fearful." – Warren Buffet

Warren Buffet is often quoted, but only occasionally listened to. This makes sense as sound advice is generally easy to agree with but hard to act on. Being greedy and investing when valuations are depressed appears daunting when markets are falling!

WHERE WE ARE

As we entered a new decade, market valuations appeared full. A cooling in trade tensions, a Brexit deal, and accommodative monetary policy, left investors relaxed. At Efficient Private Clients we used these conditions to sell equities and increase our cash in our global portfolios.

By the end of January, markets were starting to react to headlines of the novel coronavirus from the city of Wuhan, a city with a population of more than 10 million people, and the capital of China's Hubei province. As we progressed through February, market jitters intensified as contagion to other countries, such as South Korea, Italy and Iran, became a reality.

PANDEMONIUM

Gaging the VIX, an index which measures future volatility expectations, markets were terrified. The VIX surged past the levels seen in the 2018 year-end sell-off. For investors immersed in a classic risk-off scenario, it is important to understand whether fundamentals have changed, or if this was only sentiment driving markets. While global fundamentals are impacted by closed factories and cancelled flights, it is impossible to quantify the effect of COVID-19 on the global economy, yet.

It is realistic to expect supply chain disruption, but not the utter decimation of aggregate demand. Therein lies some relief, although we are not out of the woods yet. Multinationals have in any event been diversifying supply chains due to Trump's trade spat, but China is the world's factory and importantly, an influential driver of consumption growth.

Additionally, while markets have been selling-off in unison, the effects on various companies will vary greatly. If you did not buy your daily Starbucks cappuccino due to a quarantine, that sale is lost. However, if you think you would look good in that brand-new BMW, most likely you would feel the same way in the coming weeks.

WHAT TO DO

As sailors weathering turbulent waters, they know that the key to surviving a storm is to be flexible in their approach and focus on the horizon. In portfolio management we adopt a similar strategy in the management of clients' funds. We sell in times of hubris and invest in times of panic.

While stock prices are under pressure pricing in what appears to be a worst-case scenario, companies are buying back their own stock. According to Goldman Sachs, a leading investment bank, stock buybacks are seeing the most activity in two years. Stock buybacks reduce the number of shares in circulation, and if done at the right price, can be beneficial to long-term investors. Also, the Fed is not oblivious to the effect of COVID-19 and the market is already pricing in interest rate cuts of between 50 and 75 basis points. Additionally, uncertainty might be the catalyst needed to accelerate expected infrastructure investment projects.

While markets notoriously undervalue human resilience, we continue to monitor our portfolios and when opportunity presents itself, we will capture cheap valuations in order to preserve our clients' long-term wealth.

Rest assure, we are very much aware of market developments, and we do adjust our strategy if necessary; but we remain steadfast in our approach in acquiring/keeping attractive stocks and selling those that do not make the cut.

And we never, ever panic!

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