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April 2020 Monthly Commentary

While everyone knows that coronavirus poses a hazard to their health, fewer people understand that reading and acting on coronavirus news headlines may pose a hazard to their wealth. Media outlets are driven by the pursuit of advertising dollars, and sensational headlines attract eyeballs and mouse clicks, which drive ad sales. As a result of this relationship, most of the news headlines relating to coronavirus have been overwhelmingly negative and sensational, despite rays of light beginning to emerge around the world during the past month.

As it became clear in April that the current outbreak in the U.S. would not reach the worst case scenario, news headlines began to shift our attention to a potential second outbreak this fall, with headlines touting “A Bad Fall and a Bad Winter.” All the while, Anthony Fauci instead said we would be much better prepared to handle a fall outbreak. Other April headlines touted imminent risks of a stock market crash (the stock market already did crash—where were these fortune tellers in January?). You could spend all day reading articles and opinion about where the economy and stock market are headed over the short term, and it would get you absolutely nowhere with your retirement planning and investments[1][2].

The month of April highlighted the risk that comes from making investment decisions on the basis of negative news headlines. While media headlines attempted to attract eyeballs and mouse clicks by continuing to paint a sensationally negative and bleak picture, new positive data began to present points of light around the world. These included: (1) new infection cases leveling off and starting to decline in many countries and U.S. states; (2) new studies from California and New York showing a much lower mortality rate for the virus than originally thought (3) a new drug (remdesivir) shown to be effective at treating the most critical coronavirus patients; (4) entire countries and U.S. states beginning to reopen and releasing plans for further reopening; (5) companies operating in China reporting strong recovering demand for their products, showing both a path and playbook to recovery for the rest of the world; and (6) government stimulus approved swiftly and in large amounts[3].

These points of light in the pandemic led to a stock market rally for the ages. U.S. stocks increased 13% for the month of April, the best month for U.S. stocks in 33 years. U.S. stocks have now increased 33% from the low point reached in March. Numerous studies have shown the negative impact on an investor's return when one's fear voluntarily sidelines them during a handful of the best days of the stock market over long periods of time. What happened in March and April bring such studies to life. JP Morgan conducted a study of the nineteen years from 2000 to 2019. Investors who sat out just ten of the best days for the stock market reaped a 2.4% annual return, while those investors who remained invested at all times and did not miss the ten best days, earned a 6.1% annual return. When we look back in ten or twenty years, there's a decent chance that some of the best days for the U.S. stock market will have occurred during March and April of 2020. As we mentioned above, they were already some of the best days in the past 33 years[(4)(5)(6)].

We would like to make clear that we are not making a market prediction for smooth sailing over the coming months or year. By all accounts, we are still in the middle of a deep recession, there's still much uncertainty as to the path the economic recovery will take, we are in the middle of a presidential election year (which always causes volatility), and we are still in the middle of the largest stock market decline in twelve years. Yet as illustrated by the sharp upward movement of stocks in March and April, as well as the JP Morgan study and others like it, sitting in cash and waiting for more clarity isn't a sound long-term investment strategy. By the time clarity emerges, stocks have already gone up. Negative events with a market impact similar to coronavirus will happen every five to ten years for the rest of your life. It would be a mistake to panic and sell every time it happens. Continuing to invest for the long term remains the only reasonable investment strategy. We will continue to help our clients tune out the short-term noise and remain on track with their investments in order to realize long-term retirement and financial success.

Best Regards,

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Sources:

(1) Forbes
(2) CNN
(3) The Wall Street Journal
(4) Yahoo Finance
(5) Financial Times
(6) JP Morgan