Special Update on the Coronavirus, the Financial Markets, and Your Investments

Welcome to Keen on Retirement
With Bill Keen and Steve Sanduski

Steve Sanduski: Hello everybody and welcome back to another episode of Keen on Retirement. I'm your cohost, Steve Sanduski, and with me is Bill Keen and Matt Wilson. Gentlemen, welcome back to another episode.

Bill Keen: Thanks Steve. We're excited to be on the program with you today and covering some of the topics that we're dealing with now in the economies and the worldwide issues as a whole here.

Steve Sanduski: Yeah, and this is a little bit of a special episode in that it's going to be shorter than normal and we're putting this one out quicker than we normally do, because we do have a situation going on here with the Coronavirus and the economic impact of that and the market reaction to that. And so we wanted to get an episode out here to talk a little bit about what's going on there and share some of your thoughts. So Bill, why don't I start with you. And as you think about the Coronavirus, we've had other viruses in the past that have impacted the financial markets. So how do you think about the impact? I know you're not a doctor. I know you're not an expert on the virus itself, so we're not talking about that per se, but it's more about what is the impact that this is having on the economy and the market. So how are you thinking about that?

Bill Keen: Right Steve. We definitely aren't qualified to comment on the virus or on any of the numbers that will continue to come out with respect to mortality rates. We're wait and see, hurry up and wait, as they say with that type of thing as well, like the rest of the world. But what we can do is look back at history first and see how we've gotten through times like this, whether it was Ebola or Zika or MERS, SARS, many others actually that we've dealt with and gone through in the financial markets or other volatility as well. Things like 9/11 that brought the World Trade Center down and the market closed for an entire week and the world as we knew it, we thought was over at that point. We look at these things and simply say, what effect will this have on the future earnings of the companies that we're investing in?

Bill Keen: And how do we position ourselves so that we can take advantage of some of the volatility? This is not any different than we've talked about for a many episode Steve, over 100 episodes now on the podcast about how we deal with volatility and market corrections and how we're positioned appropriately and properly to get through whatever tomorrow might bring to the table with this. And I'm speaking now of financially. When you're dealing with something like this, there's an emotional side and a health risk side and it will spark a human fear as well that this thing spreads. We do know it spreads. While we don't know the more real mortality rates, we know that it spreads easily and so that can be scary. It simply can be scary. I'm not downplaying that at any way, shape or form. And for the people that it's touched and the lives that had been lost, it was everything to them.

Matt Wilson: I was going to say, you bring up a good point on the volatility. We're going through some now in the markets, but this isn't anything new. On average, we talked about this a lot, we can expect to see a 14% decline any given year. When you're living through it, it's different than just talking about it, but we forget the volatility that we live through so quickly. It wasn't that long ago that we had a 20% drop or almost a 20% drop in the market. That was Q4 of 2018.

Bill Keen: Yeah. So what's that? 15 months ago or so?

Matt Wilson: Yeah.

Bill Keen: 15 months was almost a 20% drop in the markets and most people have forgotten about that already.

Matt Wilson: And during 2018 it happened twice.

Bill Keen: Yes.

Matt Wilson: There, there was a 10% drop in the middle before that and then it went to a previous high again. Then it dropped again. And so this volatility, whatever the cause is, this is getting the attention today, Coronavirus and what's the economic impact, the market's really just trying to figure it out. That's really, I think the big issue in this. That's one of the key things we're looking at is well how long does it last? Because if this can be contained in this quarter, there's a lot less economic impact because of it. Now as it spreads into Q2 or if it spreads into Q2 will that provide some uncertainty around earnings going into second quarter? So that's really where the market is, discounting the fact that they think that's happening. I think the fact that we're already down, 14% at least as we were at the low so far, discounted that fact that that's probably what they're expecting. So anything better than that as good news.

Bill Keen: I think it's good for us to mention today on our program that to remind our listeners that the beauty of the market, I guess, maybe the efficiency of the market, sometimes it feels like the psychosis of the market, admittedly. The day to day at least longterm, it's always back to fundamentals and the underlying earnings of the companies, but short term it can feel very, very psychotic. But the market every day, every second that it's open is evaluating all the information that it has. It's a very powerful mechanism and it's determining what the right price is for this very second based on the information that it has.

Bill Keen: So I would contend that the market has priced in the lower earnings already. And that's why when you have expectations dropping, yes, it creates short term downside that what Matt's mentioned so well that we've seen over my nearly 30 years in the industry and many of you that have been invested in following the markets over your long careers have seen as well and lived through. But we know that when expectations lower and when things calm down and settle down, that the markets end up now repricing in more positive results in the economy, in the markets. So right now we're in that stage as we record this, where the market is trying to understand the negative aspect of it, but that always leads to the cycle of looking at things now doing better than expected down the road. Companies reduce their earnings expectations only then to beat those expectations a quarter or two out or some time period out.

Matt Wilson: Yeah, exactly. It's kind of a game they play and they'll get a pass because of the virus and getting all the attention because of the virus. It's not because bad product or bad sales relative to their business and how their business is actually operating. There truly is a reason for the numbers to be slightly lower than they previously said. We don't have any information from companies yet. So this isn't, this is all just speculation. We don't... companies... We're assuming they're going to come back and say earnings are lower. And that's I think a pretty fair assumption. But it's still speculation.

Bill Keen: That's right. We've had a couple come out, I think it was at Apple and Microsoft, Matt, and probably several, several others come out and say that there'll be impacted, but I don't think that's news to anybody.

Matt Wilson: That's right. The quicker the supply chains and everything else get back online, the quicker those earnings catch back up too because there's going to be pent up demand that's going to correct itself in the quarter following the containment of the virus too. So it does rebound to the other side as time goes on and you look back... It's one of those things you look back 12 months from now and it's not even something that's even on anyone's radar screen or even thought process anymore.

Bill Keen: Right. That's right.

Steve Sanduski: Now one of the other things that's been happening here is the government's reaction to what's going on. And so of course we've got significant governmental resources that are being applied to try and stop the spread of the virus. We've got researchers, we've got doctors, we've got all kinds of medical professionals, pharmacy companies that are trying to come up with some kind of vaccine or some kind of cure for this. So we've got all that going on for sure. We also just had the federal reserve announced that they were lowering interest rates by half a percent. The interest rates that the federal reserve can control. So that is, I think, providing some additional monetary stimulus. So how do you two guys think about the government's reaction and how that may or may not be able to cushion some of what's happening here in the financial markets?

Matt Wilson: It helps. It helps when we have some weakness or at least some fear of some weakness. When the federal reserve does those things, whether the emergency rate cut is a response that's going to create more demand out there. It's hard to say, but part of it, as we've mentioned in previous episodes is the yield curve inverted. Again, we've had interest rates come down and the federal reserve has short term rates higher than the 10 year treasury right now. So they were again bringing it back in line by cutting rates and that's probably more so the reason they did it than it was because cutting rates is going to solve the virus problem.

Bill Keen: Right, no correlation there. But when we look at what do we do in times like this, when opportunities are presented to us with interest rates where they're at it, I don't know if you've seen a... Have you seen a 15 year, let's say fixed mortgage or a 30 year fixed mortgage quoted here in the last day or so Matt?

Matt Wilson: Last, I've heard maybe three and an eighth on a 30 year mortgage. I don't think 15 year is much lower than that. And those could be rates that are going to come down even more so in the next couple of months because this was so quick that mortgage companies and the way they price all their rates, maybe they're just not necessarily dropping them to rock bottom instantaneously because they know a lot of people are going to refi.

Bill Keen: Right, right. But being able to be conscious of this and watch that closely and any type of mortgage debt or consumer debt, if we're able to refinance that at historically low rates, can you imagine having a 30 year mortgage under 3% in the twos? I mean back when I first got in the industry, and maybe even a little before that, when I was started following this stuff back in the eighties no, it wasn't uncommon to think of eight or 10% mortgage back then.

Bill Keen: And so just imagine having a mortgage that's a fixed rate note for under 3%. Yeah, it stimulates the economy, doesn't it?

Matt Wilson: Well, it gives you more money to spend on other things. That's for sure.

Bill Keen: That's right.

Steve Sanduski: So what else can folks be thinking about here? So we've got, as interest rates drop, there might be an opportunity to refinance and free up a little bit of cash flow. Are there some other things that folks can do in times like this as it relates to their financial situation?

Matt Wilson: It is tax time and a lot of people are thinking about making contributions to their retirement accounts, whether it's traditional IRA, Roth IRA Sep IRA if you're self employed. And even if you just are making regular contributions to your taxable investments definitely keep doing that. And maybe even thinking about doing it quicker, sooner than later because this is an opportunity.

Matt Wilson: We believe that this will be similar to the other recoveries we've had. It'd be a V shaped recovery because yeah, the economy is still strong. We still have record low unemployment numbers. We still have record job growth here in the U.S. And no reason to see that all of a sudden we're going to see an about face on those numbers to lead us to think that the economy's weak and now we're headed for a recession. And so adding to your accounts right now makes a ton of sense, especially if you're in that stage of your life.

Bill Keen: We've had several folks, well many call and this is a testament to them and their understanding of the longterm market experience and hopefully because some of our educational events and materials we've delivered but and counsel and guidance, but folks calling in saying, we'd like to add to up our monthly contributions. One fellow has a 401k that he can contribute anytime of the year because it's an individual 401k so we can put in his 19-5 anytime throughout the calendar year. He got that right over to us and said he wanted to put that to work as soon as possible.

Bill Keen: Understanding that he's not trying to time the market, he just knows that it's a lot less expensive to buy stocks today than it was 10 days ago. And if it goes down more, he's not going to be regretful. For him it's a longterm investment and he understands that. He just knows that it's a good time to be adding to the portfolios. And of course this is money that we're talking about rebalancing and investing is money that's longterm money. About five years or more money that can be invested. So that's important to keep to keep in mind as well.

Steve Sanduski: Now, one thing we haven't talked about is we talked a little bit about the government response. We mentioned what the federal reserve has done, but there's also another tool that the government can use this thing called fiscal policy. This is where the government can come in and they can spend. In the past we've talked about the infrastructure bill, that hasn't really gone anywhere yet, but what are your thoughts on what we might be able to do from a fiscal policy standpoint that might also underpin the market here at some point?

Matt Wilson: Well there's been some discussion of some tax cuts and especially related to investments specifically. So yeah, that would be a nice stimulus for the market for sure. Any type of tax cut, whether it's market related or just goes to any individuals that just provides more some more dollars in people's pockets to spend, which is basically what most people do with that, which is good for the economy.

Steve Sanduski: Yeah. I think one thing we can say here is the current administration is very focused on the financial markets and they want to see these markets stay up and go up. And so they're focused on what they can do. Now that doesn't guarantee that that'll happen, but they certainly have that attitude that they want to do what they can to support the financial markets. So we definitely have that wind in our sails.

Bill Keen: That's right. And I think all of us want to see things stabilize. We want to see things do well. That includes the leadership of our country all around. And it includes the federal reserve, which is a tailwind, having the federal reserve working toward creating policy that stimulates the economy. We say don't fight the fed. And that right now it is a tailwind that we have working in our favor. So I think that's yet another reason to know that this will be like many of the other downturns in the equity markets we've seen many, much deeper and of course we don't know if we're done with this one yet, how long it will be, how deep it will be. But I have the ultimate faith that we will emerge from this and be on to setting all time highs again at some point in the near future. But don't make me define near Steve to the day.

Matt Wilson: To maybe give it a little more context when we're not headed into a recession, these recoveries typically we're at new Heights within six months. Could be sooner than that. Could be a little longer. I mean it's all about averages but there is no indication of a recession on the horizon to indicate that that should be any different. So yeah, maybe by election time we're already at all time highs, new all time highs.

Bill Keen: It's right. And Hey Steve, I wanted to address something. My daughter, as we've shared, I've been trying to get her on the podcast, but she's kind of shy, she's a third year med student. She's in her clinical rotations right now, an internal medicine rotation. And of course we have other physician clients. We have the research providers that have medical expertise that we rely on. And I would suggest to our listeners to try to rely on factual information more and the media, which I know that's where we get our information or most people get their information from the media, from the news, but to attempt to look for the factual, unbiased, objective information as opposed to potentially something that's biased, which can either make things seem too good or make things seem too bad.

Bill Keen: But I talked to my daughter and she said, Dad, I just want you... She's giving me advice. She says in the U.S. every day we lose about 44 people to the flu as we know it, the flu as we know it. 44 people die. And I think all she did was took 16,000 deaths a year, estimated divided by 365 and that ends up being the number. There's 44 people every day that pass away in our country from the normal flu. So she said, "I hope that you've gotten your flu shot this year. That's something that I would highly recommend." And I hadn't, I haven't. So that's something that I will do even though it's March. She said, "Avoid sick people, especially those who are coughing or sneezing. Be sensitive to that. Wash your hands frequently. Sanitize. If you're not feeling well, stay out of nursing homes. Even though we want to go see grandma and that kind of thing. If you're not feeling well, don't go there."

Bill Keen: And these are things we should be doing anyway regardless of the Coronavirus. So I'm hoping that we will be a lot more sensitive as a country to doing the things we should have been doing anyway before this came about and we get information and clarity on exactly what the Coronavirus is, and how to contain it, that we can reduce the lives lost going forward as quickly as possible. But I thought that was some good unbiased, objective information that my own daughter had for me, Steve.

Steve Sanduski: Yeah. Well good. Well I think that's a good place for us to leave. So again, we wanted to make this a little shorter episode. We wanted to get this out fairly quickly in light of what's going on with the virus and the financial markets. So hopefully you've all found this helpful. We appreciate you all listening here to Keen on Retirement. If you have any questions or comments about what's going on, please feel free to reach out to the folks here at Keen Wealth Advisors. And they are always happy to get on the phone or meet with you in person to talk about your specific situation. So guys, thank you. Appreciate you doing this on short notice and we will look forward to getting this thing out and turned around here very quickly.

Steve Sanduski: Bill or Matt, is there anything that you would like to wrap up here with?

Bill Keen: I think Steve at this time it's really focusing on the things that we do have control of. And as Matt mentioned earlier, making contributions to our accounts, being sensitive to the timing of those, rebalancing portfolios. Gives us opportunity to actually buy some of the securities that have declined in value. We've mentioned refinancing mortgages, there's opportunity there. So anytime there's dislocations in the markets, it provides opportunity. But I would contend only if you have a plan in place. And we don't want folks to be making knee jerk reactions in a vacuum without having it be in the context of their overall financial plan.

Bill Keen: So the folks that we actually physically work with that we are engaged with that are from Keen Wealth have plans in place. So we're able to make these tactical moves in the context of their overall plan. But let this be a time if you do not have a financial plan in place that you have confidence in that I would contend that a fiduciary advisor is partnering with you, walking through with you, coaching you through looking at all the aspects to now would be the time to have one in place.

Bill Keen: Steve and Matt, I always appreciate your contribution. You guys make it easy on me. Thank you.

Steve Sanduski: All right Bill. Well thank you Matt. Thank you. Appreciate you guys short notice putting this together. It's an important topic today. We wanted to turn this around, make it a little bit shorter than we would normally do. So guys, we'll get this out and appreciate this and if any of you listening have any questions or comments about what's going on, please reach out to the folks at Keen Wealth. You can go to keenwealthadvisors.com and they would be happy to set up a phone call or meet in person. So appreciate that and thank you all for listening.

Bill Keen: Thank you.

Matt Wilson: Thanks.