

# KEEN ON RETIREMENT



## Coping with Uncertainty During the Coronavirus Pandemic

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 joining me here today, Bill Keen and Matt Wilson. Guys, how are you doing today?
- Bill Keen: Well, Steve, all things considered, we're doing pretty well here in Overland Park, Kansas. Matt, would you confirm that, sir?
- Matt Wilson: Yes, it's a nice day. St. Patrick's Day, we're recording this podcast.
- Bill Keen: Yeah, we'll be turning this around and having it out live on Wednesday afternoon which will be the 18th of March which is tomorrow. We're doing well here in Kansas City. I'll tell you I did not remember to wear my green today though. Do you have green on today, Steve?
- Steve Sanduski: I do not actually have green on either.
- Bill Keen: The tough thing about this is there's no one getting close enough to pinch me today either.
- Steve Sanduski: That's right.
- Bill Keen: I guess-
- Matt Wilson: Well there's green on the screen today.
- Bill Keen: Yes, today, there was green on the screen which means they closed today, the March 17th market was up today. How are you doing up in Door County, Wisconsin, Steve, up in the peninsula there-

Steve Sanduski: We are-

Bill Keen: ... in Wisconsin?

Steve Sanduski: Yeah, it's a little bit isolated up here. So we're doing fine.

Bill Keen: That's good. That's a good thing right now.

Steve Sanduski: It is, yes. So knock on wood. We're all doing good up here. So we're going to turn this episode around here pretty quickly because things do change quickly here in light of what's going on here recently. So we got a couple topics that we want to jump into today. So first of all, we're going to spend just a little bit of time talking about how to think about this kind of environment. How are people reacting to what we're facing right now? What are maybe some positive ways to react to what's going? So I think we've got some good thoughts that we can share there. Then the second thing is we'll get a little bit of an update here on the market environment and some of the things that you two guys are seeing and what you're thinking about and what you're monitoring in terms of what's happening.

Steve Sanduski: So couple good topics here. So why don't we start with the first one in terms of what are you guys seeing. What are you thinking? How should people be putting the current environment in perspective in terms of how we're reacting and behaving to it?

Bill Keen: Well Steve, I think times like this that none of us have experienced in our lifetimes, this new term social distancing is something I'd never heard of before and I don't imagine many others had either, but in addition to being a physical health risk with the Coronavirus and also a financial scenario as well, there's a mental health aspect to this as well. The stress and anxiety and now the recommended hopefully very short term, but the recommended isolation that is required to really hopefully get out ahead of the containment of this kind of flies in the face of how folks typically get through stressful things in life, through fellowship and social gatherings. We're being advised now not to do that. So I think it's important for folks to even just acknowledge that if you weren't experiencing anxiety over the things that are going on, you wouldn't be human.

Bill Keen: So things like making sure, that we're really regulating our news intake. Over the years in this podcast and in private meetings and events that we've conducted for decades, we've always shared with folks to moderate their news intake, to not get caught by the headlines and to certainly not make irrational, emotional, knee-jerk reactions based on what they're seeing in the news. Right now, it's hard not to have the news on all the time. That can create anxiety and a lot of it we hear is just the same thing over and over again which is typically normal, but now we're talking about a scenario that is playing out where it feels like the stakes are higher than your typical news day. So I would recommend folks really

finding the time of day that they pick up their news from a trusted source and just not be glued to that television set.

Matt Wilson: Yeah, I agree. I think, as you mentioned, the social distancing aspect, I was talking to someone just the other day and what really, I think, emotionally has impacted them was things that they looked forward to, vacations and trips they had planned, were canceled. So fun things they can't do now because they're not supposed to or they can't leave the country or travel even within the nation because they don't want you to.

Bill Keen: Right.

Matt Wilson: Then in addition to that, family events that they would participate in like going to the grandkids' soccer games and sporting events, all of those got canceled. So it just feels like you're under a quarantine already even if you didn't want to.

Bill Keen: Yeah, there's weddings being canceled. I mean we know, everyone listening here knows all the scenarios probably because you're experiencing it yourself right now. So it's, in my opinion, just super important to make sure that we're staying social with the means that we're able to, through telephone calls, even through video conferencing. I know that my mother knows how to receive a call on her iPhone.

Matt Wilson: FaceTime.

Bill Keen: FaceTime.

Matt Wilson: Yeah.

Bill Keen: Knows how to do that. I would encourage folks to, and I'm sure everyone has already thought this, but for those folks that are in retirement communities or nursing homes that very smartly are staying out of the public and have reduced visitors into those locations, making sure we're staying in touch with those folks and maintaining those relationships like we should have been already and hopefully we were, but even more so in this time. I think it helps them and it also helps us as well and makes a lot of sense right now.

Bill Keen: I think we're at a time as well here this week where I believe we're at a maximum level of uncertainty. Not only do the markets not like uncertainty, but we as humans don't like uncertainty. I think as this begins to play out, with more data and things that can come in to create any glimmers of certainty, that will certainly will be helpful for both us emotionally and also for the financial markets. Wouldn't you agree, Matt?

Matt Wilson: Mm-hmm (affirmative). I do. One thing, you've talked about this in previous posts and on the podcast before too, is just the power of gratitude. In times like this, it's maybe not easy to think of the things that we're grateful for, but the

technology that's been built out over the last couple of decades makes communicating and working remotely and still conducting business possible, which it's pretty remarkable. If this happened 20 years ago, who knows how worse this maybe have gotten because we couldn't work remotely and we couldn't communicate we can today, which it's kind of a blessing as well to be able to do that.

Bill Keen: We put out an email a couple days ago talking about our business continuity plan, and we had to always be prepared for, gosh, even if there was some sort of a natural disaster, a fire, something happened in our building. I think we had a water main break at one point or something where we had to vacate our property for, I think, a half day but always making sure those systems are in place. Yeah, we're not operating at this time remotely, but we would, other than in-person meetings, be able to operate the firm seamlessly remotely. All of our employees, team members here have got the technology with phone systems and computers and those kind of things to be able to operate remotely and not miss a beat. Now, when this is all, kind of we're through this, I hope my staff here, Matt, doesn't want to work from home now all the time. They realize it's, "Hey, Bill. It's more efficient this way."

Matt Wilson: Sure.

Bill Keen: They get more done because they don't have to talk to me half the time or-

Matt Wilson: Well that is true. Now, we do know they do have the ability to work from home too as well. So they can cut both ways.

Bill Keen: Oh, yeah. That's true. That's true.

Matt Wilson: Not only us, but you think of all the other businesses that can work remotely as well and maybe this is one of the things that changes over the next decade as a result of this. There's less of these corporate headquarters because it's not necessary. I mean it would be interesting to see. That's all. Who knows at this point? It's speculation, but considering that so many people can work and don't have to just be at an office among a bunch of other colleagues is pretty neat to see.

Bill Keen: I also wanted to mention while we're talking about things with respect to our situation, right now there has been reports of Coronavirus scams going around. So I would just encourage you as you operate, and I know most of the folks that listen to this are pretty up to date and up to speed and wouldn't fall for something that might come through, but the FTC has come out and several other government agencies and has warned folks that there are scammers out there. Of course, there's always scammers any opportunity that they get to come out and either send texts or emails or even make calls, anything around providing a solution or helping with Coronavirus treatment or any number of things. So be on the lookout for anything that you might receive and don't click.

The last thing we want in dealing with the Coronavirus is to download a virus of another kind onto our computer system and compromise ourselves. So certainly be on the lookout for that and don't fall prey to that as well in this time.

Steve Sanduski: Yeah, I think all great ideas and thoughts there. One thing I would add here just to supplement what you are talking about was with the technology and the importance of trying to keep up the relationships as best as we can in this time when we're not supposed to congregate in large groups. So just last night, as a matter of fact, I convened a Sanduski fam jam via GoToMeeting, and so I sent a text out to my family. We have kids in Oregon. We have kids in Washington. We have another child in Wisconsin south of where we're at here. I said, "Eight o'clock tonight, we're having a fam jam and here's the link for GoToMeeting. Hope you can make it." We were just having a great old time texting back and forth with it and sending our emojis and everything. So everyone got on, we turned the webcams on, and we just talked for an hour with everybody dispersed all over the country here and just had a great time. Everyone was just so excited that we could get together like that.

Steve Sanduski: Two of my kids are working from home right now because of their employers said, "You got to work from home," and they've got the technology to be able to do that. Yeah, so I mean it was pretty cool. So I think we can all get creative in some of the things that we're doing during this time, and I think it's going to spark some really positive things that may not have happened otherwise in trying to make the best of a difficult situation.

Bill Keen: Well maybe we can continue that post-Coronavirus in getting together more often with our family in those methods.

Steve Sanduski: For sure.

Bill Keen: How nice would that be-

Steve Sanduski: Yeah.

Bill Keen: ... to your point?

Steve Sanduski: Yeah, I'm thinking about making this a regular thing.

Bill Keen: Absolutely.

Steve Sanduski: Yeah, for sure. Yeah. Well good. Well why don't we take a few minutes here and maybe give a little bit of an update of what's going on here in the financial markets and what you guys are thinking and seeing right now?

Matt Wilson: Yeah, the first thing really when it comes to what's happening is to think about, "Okay. What is this?" Well first and foremost, this is a public health crisis first, it's an economic problem second, and then a financial market problem third. So

it didn't happen in the other direction. So if we can get clarity around the first one, we can deal with the other two.

Matt Wilson: That's really the crux of it because the very first thing the market's looking for is just, "Let's get our arms around the number of cases and can we identify how close we are to a peak in terms of the growth rate of new cases?" That's the big aspect to the flatten the curve.

Steve Sanduski: Mm-hmm (affirmative). Yeah.

Bill Keen: Of course. I would say one of the things that provides some solace is seeing countries like China and South Korea on that backside of the curve in what may feel like a very long time to us when we're driving around the streets and it feels like Christmas Day. Well it feels like Christmas Day because everything's closed, but in other ways, it doesn't feel like Christmas Day, but kind of an eerie feeling when everything is closing here temporarily. But looking at that timeframe of call it seven to eight weeks or so where those countries were on the backside of it, it provides, again, some solace to what our short-term journey might actually look like around some of those numbers that you're talking about there, Matt.

Matt Wilson: Yeah, I've seen data that puts us in the US end of March as kind of the peak of this. Now, there's different analyses that are done that maybe push that out into April as well, but we're getting close to seeing maybe the peak of this as of where the data is currently. That will help identify, "Okay. When are we coming out of this?" Because the market, it's pricing in some different scenarios. So right now, the question we have to ask ourselves, "Is the market pricing at a recession?"

Bill Keen: And it is.

Matt Wilson: It is. It's pricing at a mild recession currently because a mild recession, the typical pullback is around 35% from peak to trough.

Bill Keen: From peak to trough? Oh. Good. Okay.

Matt Wilson: Yeah, 35%. We hit down 30% here just the other day in all the major market indices. The typical bear market, the contraction within a bear market without a recession is down about 25%. So we're right in between those is where the market is pricing it in currently. It's pricing it in based on, again, the unknown on the length of this. I mean right now here in the Midwest in Kansas City, we're basically shutting all restaurants and entertainment districts down for the next two weeks.

Bill Keen: Gyms. Of course, those probably should have been the first to go, but-

Matt Wilson: Well-

Bill Keen: ... I did see that those went out a couple days ago.

Matt Wilson: Yeah. School, I mean all the educational institutions here are on homeschooling all in anticipation of flattening that curve. Flattening the curve, it's not the yield curve. It's the rate of increases so we don't have this massive influx of patients to the medical system that can't handle it. So if we can spread that out, the system can handle it. That's really the key to just staying in front of this, washing our hands, not going out in the public and exposing ourselves to each other which just spreads the virus around.

Matt Wilson: So that's where the market's pricing in. Now, does all the economic data reflect this? No, because most of it is lagging. There's some leading data that's beginning to come out. We haven't seen initial jobless claims spike yet. We'll have a new data point on Thursday. Last Thursday was in line with expectations, nothing new there, but we'll begin to see that rise which is the first sign of a recession. Then earnings decreases, they haven't been announced by any of the research analysts yet, but that is definitely priced into the market right now. The market is looking anywhere between \$160 to \$170 per share earnings within the S&P 500.

Bill Keen: Matt, define that. Sorry to interrupt you there. Define that. That's all companies on average divided by the total amount of earnings-

Matt Wilson: That's right.

Bill Keen: ... put I guess pretty simply. Yes. Okay.

Matt Wilson: Yeah, total earnings divided by the number of shares outstanding.

Bill Keen: Of all the companies.

Matt Wilson: All the companies within the S&P 500 and a multiple of that. So the multiple ranges anywhere from 1X all the way up to Japan's had 100X multiple. US market is typically in the 10 to 20%, 20X range. We were a little higher than that earlier this year, but right now depending on the day, we're anywhere between a 14 to 16X multiple on that earnings. So if that earnings number changes significantly, that would reflect maybe a different multiple here, but that's where the data is currently. Now, we'll begin to see as earnings reports are released in April for Q1, they'll also be providing guidance for Q2. The expectation is for a pretty significant drop in economic activity in Q2. We're seeing anywhere from -10% annualized, that'd be -2.5% for the quarter, but then a very robust rebound in Q3 to make up for that lack of demand in Q2 with some pent-up demand in Q3. So that's where these earnings multiples and the EPS numbers aren't changing significantly with the expectations where they're at currently.

Bill Keen: I heard it said recently by someone pretty elegantly, but easy to understand, there will be a lot of the industries in our economy that are having their sales and their revenue simply postponed. So if you were still going to buy a vehicle, you are more than likely going to buy a vehicle in two months or a month from now, but if it's going to dinner and you miss dinner tonight, you're not going to go to dinner tomorrow twice.

Matt Wilson: You can't make up for that.

Bill Keen: Right. So you're not going to take one cruise this year, you canceled it, you're not going to take two next year although maybe you will after getting through all this, but there are some industries that won't make this up. Those are the ones that we're seeing talked about in the news being helped right now, airlines, hospitality, the cruise lines, and many others that fall into that category of you won't eat dinner twice tomorrow night category if you will.

Matt Wilson: That's right. Another thing that we look at is just how the market, how is it performing and what is the sentiment as well. So almost like the emotional, the analysis of the psychosis of the market. There's a lot of different measurements that we can look at. One of them that incorporates a lot of different factors, the thing that we call the TED spread, junk yield, bond spreads. We look at the volatility index ratio to three-month treasury bills and high yield credit default spreads. I mean these are all indicators of uncertainty and spikes in this composite have generally led to a bottom in the market so to speak. This composite is at the highest level it's ever been in over the last 60 years. So it's indicating that the panic button has been hit at this point which is a good sign because that tells us that people have reacted to this. There isn't maybe another leg down based on where we're at today.

Bill Keen: Although there always could be, I guess, huh?

Matt Wilson: That's right. Anything can happen. I mean one thing that we look at is okay, we came into this. Go back in February and we were very strong from an economic standpoint. We were still adding jobs here in the US. Wages were rising. Corporations were in good shape. Debt payment ratios, all of the different things we talk about and look at from an economic standpoint were very strong. So considering that we had a strong economy first and then had this happen puts us in much better shape than if we were the opposite situation. So a good comparison in terms of a surprise panic would be 9/11. It wasn't a pandemic, but it was a surprise situation that came out of nowhere with terrorist attacks in New York. But we were in the midst of a recession at that point.

Bill Keen: Oh, I remember. I remember sitting in my office watching the jumbo jets fly into the towers on television.

Matt Wilson: Yeah.

Bill Keen: It felt ... I'm sure everyone listening to this remembers where they were at that moment-

Matt Wilson: Yeah.

Bill Keen: ... and you thought life as we knew it had changed. In fact, it did change. Many things changed. TSA changed. There was a lot of things that changed probably for the better down the road, but very scary time. To your point, yes, very surprising, came out of nowhere.

Matt Wilson: Out of nowhere.

Bill Keen: We were in a recession at the time that happened. So very different going into this one like you said, Matt. Actually, from a financial standpoint, the banks, the condition the banks are in today, very strong compared to then, especially compared to ... We want to go back and talk about recessions, we talk about '08-'09 where the financial system literally melted down or locked up.

Matt Wilson: Yeah, froze.

Bill Keen: Money in banks weren't even trusted. The money market funds actually broke the dollar which many of you listening might not get the relevance of that, but when you put money in money market, you assume there's no risk there and there typically isn't. I guess technically, there is. Because of the way liquidity dried up back in 2008 and '09, the money market account actually, for a few days or so-

Matt Wilson: People couldn't get their money out.

Bill Keen: ... couldn't get their money out. Yeah.

Matt Wilson: Yeah.

Bill Keen: The financial system literally looked up, and that is nowhere close to where we are today. It's different. This time is different. We always tell folks not to say that, but the reality is it is different. It's always different. The details are always different, but what brings us through these things end up being very similar.

Matt Wilson: Yes. So the last piece to this is then what has been the response from the government from a monetary and fiscal standpoint. Monetary, they have come out and they have cut rates twice, essentially two emergency rate cuts which they've never done before. They are continuing with their quantitative easing program and pumping liquidity in the market within the repo market as well. So they are making sure there is no credit freeze, just fully getting ahead of it, not waiting for it to happen, but being ahead of it.

Matt Wilson: Then the fiscal side, so this is where Congress comes into play. They have already extended tax filing. If you owe money, they've pushed that out 90 days. Then, they've announced another type of fiscal stimulus in the form of checks or cash deposits in people's bank accounts or mailing out checks to individuals. The rumor is \$1000 or so per household, but it's hard to say. It could be much higher than that because the president would like that to be in people's hands to start spending within the next couple of weeks is what he said in his press conference earlier today. So they are doing everything they can to smooth this out, and I wouldn't be surprised if they do more later on whether it's continued payroll, FICA tax cuts, or what have you.

Steve Sanduski: Yeah, so overall, guys, it sounds like we're actually feeling reasonably good. Obviously, we have a health situation that is serious and all forces in the government and many aspects of the private sector are on it in dealing with that situation. Then the resulting financial impact and the financial markets, we've got the government on the fiscal side and also the Federal Reserve on the monetary side. They both have sprung into action so we've got some serious help there as well. So it looks like the things that we can do here, it sounds like things are happening the way they should be happening to really pull us out of this.

Matt Wilson: Yeah, they are doing everything they can to stimulate the economy. I mean you're looking at oil prices too, gas prices. That's another kind of tailwind. I mean you go fill up your gas tank and whatever you weren't spending on gas, you have now in your bank account to go spend otherwise. You got rates at zero. So I think we have some nice tailwinds, especially if we get some clarity on COVID-19 and the rate of growth, maybe start to see the end, light at the end of the tunnel there. We have a tailwind going into the end of the year.

Steve Sanduski: Sounds good. Well great. Well why don't we wrap it up there. Bill, I'll give you the last word here, and then we'll go ahead and turn this one around so we can get it out quickly to everybody.

Bill Keen: I think it's important that we all focus on the things we can control. If you've listened to our program over the last four years or so or you've listened to us speak or met in person, you'll hear that one of our mantras at the firm and even in my book, Keen on Retirement, I saw control the controllable. There's no excuse for not controlling the controllable and in understanding the things that we don't have control over and having a plan for handling those things as they come at us. So now like any other time, but now especially, if you don't have a financial plan in place where you've thought through intentionally what you'll need to spend, what the taxes will look like, certain dates that things are coming due, and certain needs that you have, today, now should be a wakeup call to those of you that don't have a financial plan in place.

Bill Keen:

We're honored for the clients that we get to serve. We are honored to be on that path, this path. It's never fun to see asset prices go down. We know that this will happen. It will happen again. The reason will be different, but it will happen again in the future. We know we go through corrections. We know we go through bear markets, but the idea that we have a plan in place at all times and that we're able to navigate these waters and not make knee-jerk reactions, continue to be intentional, and even look for opportunities in these times is very important. So I thank you all for tuning in with us. We'll be back again on the podcast in a couple weeks. If anyone has a question for us, would like to chat, or just generally catch up, please give us a call or email us anytime. We are here. Appreciate you guys being on with me today. Thank you.

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