E D E L M A N
map
managed asset program

Dear Client:

For the past month on my radio show, I've been warning that COVID-19 is causing some investors to panic. And we saw a big demonstration of that yesterday with the 3.4 percent decline in the S&P 500. And stock prices are continuing to fall today. So, should you be panicking like some people are?

Not at all. Quick drops in stock prices occur from time to time, and we've witnessed many such instances in our 30+ years as financial advisors. It's easy to see why investors might get spooked during such scary times, so we understand that you might have concerns. That's why we want to assure you and explain why we are not fearful about COVID-19.

First and foremost, I'm very sorry if the virus has affected your health or that of anyone in your life. The stories we've all heard about quarantines, illness and death give one pause, and you're right to be concerned about the public health implications of the virus.

But it's important to keep COVID-19 in perspective. There have been about 14 confirmed cases in the U.S. and 2,600 deaths globally, mainly in China, according to the latest figures from the Centers for Disease Control and Prevention. Meanwhile, the flu so far this season has infected 29 million people worldwide, and killed 16,000, according to the CDC. Why are some people panicking over COVID-19, when they aren't at all concerned about the flu?

The reason is obvious: COVID-19 is new; flu isn't. And "new" means unfamiliar, and that can be scary. We want you to know that, although COVID-19 is new, we see no reason to alter or deviate from your investment strategy or broader financial plan. After all, either COVID-19 will pass – meaning the short-term impact on the financial markets will soon be over – or, well, the virus will wipe out the human race. If the former occurs and a cure or vaccine is found, COVID-19 will be like polio: a thing of the past. And if the latter occurs, and we're all gone, no one will care what happens to their investments!

In other words, those who are panicking aren't thinking about this logically. And that's the point, really: Nobody decides logically that it's time to panic. Panic is an emotional response, not an intellectual one. So, let's look at the facts to help you determine the best course of action. Consider that:

- The White House National Economic Council and the White House Council of Economic Advisers both report that they expect limited economic impact from COVID-19 – a reduction this year in our gross domestic product (the total value of all goods and services our nation produces) of 0.2 percentage points. Last year's GDP rose 2.3 percent, according to countryeconomy.com, so a 0.2 cut would mean our economy would expand by 2.1 percent instead of 2.3 percent.

- The Congressional Budget Office says 100,000 deaths from the virus would cut GDP growth by 1 percent (not enough to cause a recession) and that a true pandemic of far greater proportion would be similar to an average recession. We've had many recessions in our nation's history, and none have destroyed the U.S. economy. It's reasonable to expect that the next one won't either.

- Even in China, the virus's economic impact has been minimal. Oxford Economics notes that China's GDP last year grew 6.1 percent, and says it expects COVID-19 to reduce China's growth to 5.4 percent in 2020. Thus, China's economy is expected to grow more than twice as much as the U.S. economy.

Despite our confidence that the virus – and the world's panic – will be short-lived, we do acknowledge that market volatility might persist until people begin to accept the fact that the world isn't coming to an end. When they do, it would not surprise us to see stock prices rise as quickly and sharply as they have recently fallen.

That's why it's important to stay invested. Nobody knows what stock prices will do next; selling today carries the very real risk of missing the recovery. To illustrate, look at the following chart, adapted from my award-winning book, *The Truth About Money.* It shows that the stock market falls sharply when shocks occur – and that prices have always recovered within a short time.

Stocks During and After a Crisis

Crisis	**Change in S&P 500**	**Next Six Months**	**Next Year**
Korean War	-15% in 5 weeks	+ 31%	+ 36%
Sputnik	-10% in 3 weeks	+ 8%	+ 30%
Steel price rollback	-20% in 8 weeks	+ 11%	+ 24%
Liquidity crisis	-12% in 4 weeks	+ 15%	+ 42%
Arab oil embargo	-17% in 9 weeks	- 1%	- 28%
Nixon resignation	-19% in 5 weeks	+ 30%	+ 27%
Hunt Silver Crisis	-12% in 4 weeks	+ 26%	+ 29%
Crash of '87	-26% in 3 weeks	+ 7%	+ 16%
Gulf War	-12% in 3 weeks	+ 11%	+ 25%
September 11th	-12% in 2 weeks	+ 7%	- 17%
Enron	-5% in 9 weeks	- 6%	- 17%
Tsunami in Japan	-4% in 4 weeks	- 1%	+ 7%
Hurricane Katrina	-2% in 6 weeks	+ 7%	+ 10%
S&P Downgrades Greece Debt to Junk	-16% in 10 weeks	+ 24%	+ 31%
S&P Downgrades US From AAA to AA+	-18% in 10 weeks	+ 29%	+ 32%
Chinese Stock Market Crash	-12% in 5 weeks	+ 5%	+ 16%
Chinese Stock Market Crash Cont.	-12 % in 6 weeks	+ 20%	+ 27%
Inflationary and Interest Rate Hike Concerns	-10% in 2 weeks	+ 11%	+ 5%
Trade War and Interest Rate Concerns	-10% in 4 weeks	+ 9%	tbd
Average	**-13%**	**+ 13%**	**+ 16%**

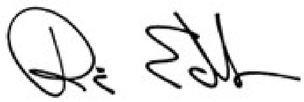
Sources: Ibbotson and Associates and Bloomberg

Let me offer one additional helpful point for you: Keep in mind that your portfolio is highly diversified; you don't have all of your assets in stocks. This helps insulate you from declines in the stock market. And, we're monitoring your portfolio daily, and will deploy our rebalancing strategy for you as opportunities arise. This important service takes advantage of the price declines in the market, and helps reduce your portfolio's volatility.

So, we encourage you to stay focused on your long-term goals, and either ignore news about COVID-19 (as far as your portfolio is concerned) or consider the recent decline in prices to be a buying opportunity. Stocks are on sale! This might be a great time to add to your portfolio! (To see if that makes sense for you, talk to your advisor.)

You can be certain that we are continuing to monitor events closely, and we'll continue to provide you with updates as needed. As always, please feel free to contact us if you have any questions.

Regards!



Ric Edelman
Founder

An index is a portfolio of specific securities (common examples are the S&P, DJIA, NASDAQ), the performance of which is often used as a benchmark in judging the relative performance of certain asset classes. Indexes are unmanaged portfolios and investors cannot invest directly in an index. Past performance does not guarantee future results.