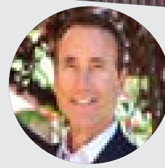
the WealthWATCH℠

LINEWEAVER WealthWATCH℠ CENTER

Coronavirus, Black Swans & Your Portfolio



by Jerry Herman, CFA®

Earlier in the year, we talked about the backdrop being favorable as we entered 2020. However, we noted that 2020 would be like every other year in that it would include unpredictable or surprise events. It didn't take long for that to materialize. The Coronavirus is the black swan event for 2020.

You hear the term "black swan" often on the news, or when the pundits talk about the financial markets, but what, exactly, do people mean when they talk about a black swan? A black swan event is one that is completely unexpected and cannot be predicted. It also has significant consequences. A black swan event can have a tremendous effect, positive or negative, on societies, economies, financial markets and of course on investment portfolios. When it comes to stock markets, the main black swan effect is increased volatility. This is not just due to the actual effect, but the psychological effect of something completely unexpected happening on market sentiment.

With these events, often market dynamics can change substantially, and, as we saw this time, very quickly. In the week ending February 28th, the Coronavirus outbreak drove stocks to their worst weekly loss since the 2008 financial crisis. The Dow lost 12%, S&P 11.5% and the NASDAQ 10%. Since then, and on a variety of headlines, both the Dow and S & P have moved even lower, into bear market territory. A bear market is a term used to describe a market that has tumbled by 20% or more from its high.

So, while these things happen and are extremely difficult to predict, there are some things you can do to mitigate risk to your portfolio. Effective asset allocation may be the best way to ensure that a portfolio can endure over the long term as black swan type events inevitably occur. Chasing returns in the top-performing areas of the market may produce great returns in the short term, but it only takes one catastrophe to wipe out a portfolio that is not diversified. A portfolio can be diversified by asset class, region and investment or product style.

For example, we proactively rebalanced our portfolios in mid-January because of the great performance the markets saw in 2019. If people went from a 50/50 bond/equities mix to 60/40, we brought it back in line, which has helped mitigate some of the volatility we're seeing now. We also took similar steps in early March, to take advantage of the pull-back in equities. Keep in mind that, in a look back over the past 20 years, every 5 day sell-off of over 10%, with the exception of the October 2008 plunge of 14.6%, led to positive returns just two weeks after the fall. And 6 months later the average gain was about 12%.

We consider a wide range of possible outcomes, both good and bad when helping an investor establish an asset allocation and plan. Those preparations include the possibility, even the inevitability, of a downturn. Amid the anxiety that accompanies developments surrounding the coronavirus, decades of financial science and long-term investing principles remain a strong guide.

A Quarterly Publication

Volume 12: Issue 2

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LETTER FROM THE PRESIDENT

by Jim Lineweaver, CFP®, AIF® President and Founder

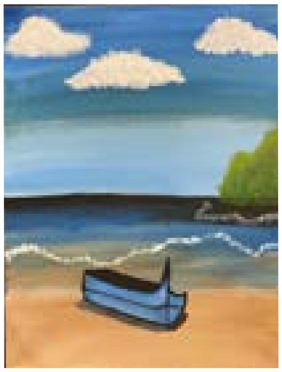
First, let me say the obvious: these are truly unprecedented times we are living through. Second, we appreciate how calm our clients have been. While everyone is feeling the anxiety and challenges of these times, I am truly impressed by everyone that I have spoken with. Please know that we will continue to closely monitor the markets, the economy, and your portfolio, and take action when we need to in order to best protect your hard-earned money.

One of the conversations I am having with many of my clients is simply a reminder that the equities part of your portfolio is really meant for a 3-5 year timeline. For immediate money needs, we've layered in other strategies that are much less volatile, and which should offer you protection in the short term.

We often hear from clients that other advisors that they've had are more reactive, while we strive to be more proactive. We think that was the case this time as well. To take advantage of the strong market in 2019, we rebalanced in early January and again in March as noted by Jerry's article on the front page. We've also been making an effort to send regular communications about the markets, your portfolio, and most recently the CARES Act during the last several weeks. We've also been called on by channels 5 (WEWS) and 8 (FOX) to help clarify confusion around the markets and the financial ramifications of the coronavirus pandemic. Be sure to follow our website and blog for regular updates, and, if you have any questions at all, we're here to help during these challenging times.

I want to say again how grateful I am for the trust that you've all placed in me and the Lineweaver Financial Team. We're truly privileged to be able to serve such wonderful clients. We hope you all stay safe and healthy, and know that we'll always be here to help.

"Make each day your masterpiece" - John Wooden



Tori's the Winner!

While practicing social distancing this last week, the Lineweaver family hosted a painting contest on social media! Tori was the big winner! We thought you could all use a smile in these difficult times, so we thought we'd share. Hopefully, many of you are having the opportunity to spend some time with family, even if we all wish it was under better circumstances. From the Lineweaver family to yours, we hope you are all staying safe and healthy through these difficult times.

HEALTHWATCH

With the media being such a large part of society, it's hard to know when information is accurate or when it's a fabrication. This is extremely common in the world of health, and we often receive conflicting information about the best way to maintain a healthy lifestyle. Below are just a few health and nutrition tips backed by science for these difficult times.

1. Avoid sugary beverages

It's often convenient to grab a sugary drink when we are in a rush, or even when we are out to dinner. But consuming these drinks can have consequences, such as type 2 diabetes and heart disease. It's best to drink something that is low in sugar.

2. Don't fear coffee

While too much of anything is never a good thing, coffee is actually high in antioxidants and can help reduce the risk of Parkinson's and Alzheimer's diseases.

3. Get enough sleep

Sleep is extremely important for our mind and body in order to function properly. When our bodies don't get enough sleep it can drive insulin resistance, disrupt appetite hormones, and reduce physical and mental performance.

4. Drink some water, especially before meals

Drinking enough water throughout the day can have numerous benefits. Some studies have even shown that it can increase your metabolism. Another study found that drinking water 30 minutes before each meal increased weight loss.

5. Use plenty of herbs and spices

Due to powerful benefits, you should try to include as many herbs and spices as possible into your diet. Ginger and turmeric are two spices that have multiple health benefits, both contain antioxidants and anti-inflammatory properties.

6. Don't overcook or burn your meat

Meat is an important part of your diet since it's high in protein. But, if you eat overcooked or burnt meat this can lead to the formation of harmful compounds that can raise your risk of health issues.

Source: https://www.healthline.com/nutrition/27-health-and-nutrition-tips#section8

ECONOMIC COMMENTARY

Spring 2020

The COVID-19 virus has made a brief global recession likely. While the duration of the virus pandemic is unpredictable, policy stimulus, pent-up demand and a lack of major imbalances argue for a solid upswing when the virus threat clears.

The containment measures being taken across the globe to combat the virus will have a large economic impact. Global gross domestic product (GDP) growth will probably be negative in the first quarter, and will enter the second quarter at risk of contracting further.

Provided the virus is transitory—perhaps contained in the second quarter—the global economy should be poised to rebound in the second half of 2020. The combination of monetary and fiscal stimulus on top of last year's global central-bank easing, in addition to the reduction in China-U.S. trade tensions, argues for a solid recovery when the virus threat recedes.

In the U.S., the government's virus containment measures mean a technical recession—negative GDP growth in Q1 and Q2—seems likely. Fiscal policy will be important in helping to offset the recession.

The economic impact of the virus may turn out larger than expected. The shock to consumer and business confidence could generate a self-sustaining economic downturn. A re-run of the 2008 financial crisis seems unlikely. Tier 1 capital ratios[1] for large U.S. banks are significantly improved from where they were in 2007, and should cushion against the risk of a severe drawdown. Bank mortgage lending has also been prudent, and consumer balance sheets are fairly healthy.

The chief uncertainties are around the length and duration of the virus threat and whether it will re-escalate when containment measures in many countries are reversed. It's likely that markets will find a bottom when the daily number of new virus cases in Europe and the U.S. begins to decline.

Goldman Sachs has offered a revised Outlook for 2020, with the largest GDP drop in history in quarter two, followed by the best quarter in US history in quarter 3[2]. JP Morgan also sees contraction in the first and second quarters, with significant growth in the 3rd and 4th quarters[3].

Ben Bernanke, former Chairman of the Fed, likens the coronavirus outbreak more to a "major natural disaster" than a depression. While he does expect a sharp downturn, he expects a "fairly quick recovery."[4]

1: Refinitiv Datastream, 3.15.2020

2: CNBC: Goldman sees 15% jobless rate and 34% GDP decline, followed by the fastest recovery in history. 3.31.2020

3: JP Morgan: Assessing the Fallout from The Coronavirus Epidemic. 3.23.20

4: CNBC: Bernanke: Coronavirus disruptions 'much closer to a major snowstorm' than the Great Depression. 3.25.20

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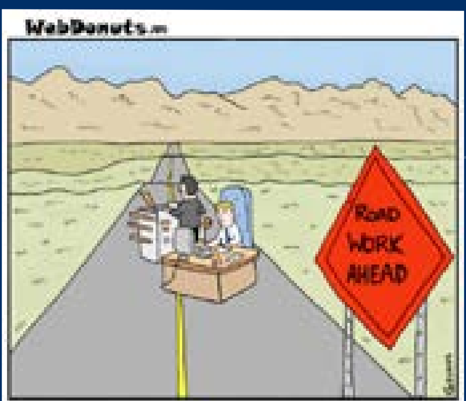

EMPLOYEE SPOTLIGHT

Danielle Nadolski-Holley

Danielle joined our firm as part of the client services team! She coordinates our financial advisors' calendars, which includes scheduling client reviews, as well as the preparation for each appointment. Danielle will also be assisting with our 457 Deferred Compensation department as a helping hand to the employees and cities we currently serve.

Danielle graduated from John Carroll University with a bachelor's degree in Industrial and Organizational Psychology. She currently resides in Concord Township with her husband and children. She enjoys going on bike rides and boating on Lake Erie.

Pro Tip:

When signing a legal document this year, it's recommended to use the full year. When only using 20 it is extremely easy for someone to change that date to 3/11/2017 or 3/11/2018. Be sure to protect yourself, don't abbreviate in 2020.

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