It started in China, then spread to South Korea and Japan. Cruise ships have carried it; tourists have transported it. Now it's in Italy and Iran, Thailand and Taiwan, and more countries besides. It has infected almost 80,000 people and been fatal to over 2,600.[1]

We're referring, of course, to the coronavirus.

COVID-19, as scientists call it, is a new strain of respiratory virus that can cause severe pneumonia and even death. What started as a local outbreak in the Chinese city of Wuhan has rapidly become much more, and the markets are beginning to take it seriously. On February 24, the Dow dropped over **1,000 points**, and the S&P 500 over **100**, after news broke that cases have surged in Italy and South Korea.[2]

Obviously, the *human* cost of an epidemic is more important than anything else. But in addition to being a health crisis, COVID-19 also has the potential to create an *economic* crisis. Viruses are small but insidious, and they can infect more than just people.

They can also infect supply chains.

This fact is what has investors – and even some of the world's most powerful corporations – spooked. As your financial advisors, we believe that it's our job to explain why that is, as well as what *we* should do about it.

The Global Economy

There's nothing like a virus to remind us that we are all connected.

To show what we mean, look at your phone for a moment. In a sense, you're holding a miniature version of the world. The screen you're looking at probably came from Japan. Your phone's accelerometer likely came from Germany; the gyroscope, from Belgium. The wi-fi chip may have come from Mexico, or perhaps Brazil; the audio chip, from the United States.

And your phone's battery? That probably came from China.[3]

For a company like Apple to sell you an iPhone, they rely on the work of millions of people based in dozens of countries. *That* is a supply chain, one of thousands of arteries that keep the world's economy beating.

A chain is only as strong as its weakest link, though. Imagine an epidemic breaks out near one link – a factory that produces widgets, for example. Suddenly, people can't go to work. Manufacturing stops. Fewer widgets are produced.

Somewhere down the chain, another factory makes gizmos – but they need widgets to do it. What happens when there aren't enough widgets? Soon, there won't be enough gizmos, either.

And at the end of the chain, the company that turns the widget-powered gizmos into *gadgets* has fewer of *those* to sell. Which means they can't reach their quarterly estimates, which means their stock price falls. As do the stock prices of the widget and gizmo manufacturers.

The result is a black day for the markets. Like the one we had on February 24.

This is exactly what's happening right now. With one of the world's largest economies, China is at the center of many, *many* supply chains. From electronics to blue jeans, the world relies on China for its resources and manpower. But China is also at the center of the current outbreak, with over 77,000 confirmed cases and 2,500 deaths.[1] This is why even companies like Apple and Adidas have recently admitted that COVID-19 will probably affect their bottom line.[4&5]

But the story doesn't end there.

From Asia to Europe

The markets have long known about how the coronavirus could hamper global supply chains. But as long as the virus seemed limited to China, investors largely shrugged it off. That all started to change last week.

Take South Korea – small in terms of size, but a giant in terms of industry. On February 17, South Korea had 30 confirmed cases.[6] Just *one week* later, there were over 800.[1]

Even more unnerving, to some analysists, is what's going on in Northern Italy. Last week, there were only a few reported cases. As of this writing, there are over 200, mainly centered in Lombardy, where some of the world's most important carmakers are located.[1] Officials have closed schools and put multiple towns on lockdown to keep the virus from spreading, but the fact that COVID-19 is now established on an entirely different continent is what's causing fear.

Another cause of fear is that it's not just supply chains and manufacturing being affected. Tourism, airlines, energy –many industries have seen a drop in business due to the coronavirus. And of course, the sheer fact that people have died is enough to make anyone wonder, "Should *I* be afraid, too?"

Let's answer that right now.

Fear and financial decisions

Fear is at the heart of *every* market drop. Usually, it's fear of the unknown. In this case, there are several unknowns for investors to contend with. Why exactly is this virus spreading so fast? How far will it spread? How long will it last? These are questions that no financial advisor can answer.

But fear, as we know, is a bad reason to make decisions. *Fear of missing out,* for example, often makes us behave too rashly. On the other side of the coin, *fear of not getting out* leads us to toss away opportunities or abandon the progress we've made to our goals.

Fortunately, whenever we feel fear, there are two tools that we can use to steady ourselves.

The first tool is history. Past performance, as you've no doubt heard many times, is no guarantee of future results. But past is also prologue, which means history can give us a good idea of what to expect in the future. For example, here is how the S&P 500 performed over a 6-month period after other recent epidemics.[7]

Epidemic	**Month end**	**6-month % change of S&P**
SARS	April 2003	+14.59%
Swine flu	April 2009	+18.72%
Cholera	November 2010	+13.95%
MERS	May 2013	+10.74%
Ebola	March 2014	+5.34%
Zika	January 2016	+12.03%

Now, these are all imperfect comparisons, as they dealt with different viruses, at different times, in different regions, in different contexts. The point is that the markets, while occasionally impacted in the *short term* by epidemics, are rarely impacted over the *long-term.* And as we are investing to help you achieve your long-term goals, it's the long-term that we care about.

The second tool, of course, is our own plan. You've probably heard us say this before, but we invest *expecting* volatility to happen. As your financial advisors, we can't predict exactly *when* it will occur, nor always what will cause it. But we know that it will, so we are prepared for it. This particular bout of volatility is coming after months of astonishing growth, and a correction has always been bound to happen at some point. If it's not coronavirus, it could be the trade war, or the U.S. presidential elections, or any of a dozen other things.

Over the coming weeks, we'll probably see more scary-sounding headlines. It's possible that COVID-19 could spread, and further disrupt the world economy. It's possible that should these things happen, the markets will drop – and then climb again when more *positive* headlines emerge the next day. Coronavirus is unquestionably a serious issue of global importance, but it's not worth panicking over. So, our advice is to not overreact to these day-to-day or even week-to-week swings. To do that would be like playing whack-a-mole with your investments. Our team certainly won't do that!

What we *will* do is continue to keep a very close eye on how the coronavirus is spreading, as well as how the world is handling it. If we ever feel that the *long-term* situation has changed, we may then make changes, too. But in the meantime, let's continue to be cautious, but never fearful, investors.

As always, please let us know if you have any questions or concerns. We are always happy to help with both. Have a great week!

Sincerely,

Barbara B. Hudock CIMA®, CPM®
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