HARWOOD
FINANCIAL GROUP

Over the weekend, investors were bombarded with headlines that the coronavirus spread outside of China. This news fueled increased market volatility and brought the optimistic view of global financial markets into question.

The coronavirus first appeared in the news several weeks ago. Initially, there was little press and the market barely noticed. Experience told us that this could turn into something bigger, so we sent out an email to you detailing the frequency and overall impact of pandemics. Our research shows that every pandemic in modern history has not only been short-lived, but has also been a great buying opportunity for patient investors.

Since pandemics rarely impact the fundamentals of our economy and the companies that operate within it, the best course of action is to do nothing. Furthermore, our portfolios are broadly diversified to try to avoid any temptation to trade through these periods of volatility. Therefore, we avoid the dangers of poor market timing.

When we look back at headlines on Ebola, SARS, H1N1 and the Avian Flu, the media made it feel like the world was falling apart. In the end, they all passed quickly and the stock market recovered fully from each of these events. Epidemics have rarely had much more than a temporary impact.

When the coronavirus first appeared in China, there was plenty of other news to keep viewers tuned in. We were in the mist of impeachment hearings and Iran was misbehaving.

Now things have quieted down, and since the news agencies need news to stay in business, coronavirus has taken center stage. Attention from the press fuels concern and uncertainty from people that follow the news and the market is reacting accordingly.

As investment managers, we evaluate the outbreak in terms of its impact on economies and markets. We expect at least a temporary effect on Chinese economic growth in the short term. The key questions are: how long will it last, and will it spill over to other economies? Our primary concern is with imports/exports, tourism, and the global supply chain. In our base-case scenario, the spread of the virus stabilizes over the coming weeks and weaker economic activity is limited to the first quarter. The next several quarters will likely accelerate to catch up on production, with a small net negative impact over the entire year. If data should weaken, we stand ready to manage risk accordingly.

While the sharp selloff in equities on Monday might concern some investors, it's important to remember the major indices in the U.S. posted an all-time high on Tuesday, February 18th. On average, stock markets have a drawdown of 10% about every 8-12 months.

Here is what we are doing. Prior to this recent news blitz, we had started to re-evaluate our portfolios and moving to more conservative allocations. Low volatility index funds give us broad diversification mostly large-cap dividend stocks. Although many of the companies we are investing in do business outside the US, there is very little exposure to either the countries or the industries that we feel will be hardest hit by this virus.

Here is what we expect. According to the World Health Organization, the daily new cases in China are going down (perhaps due to the aggressive response by the Chinese government), and life in China appears to slowly be getting back to normal. For example, Starbucks just announced that they will now be reopening all their stores in China. There may be an economic slowdown due to the virus, but it will most likely be small and short-lived. Consumer spending drives 70% of the U.S. economy, and consumers are strong and spending money. There is little reason to suggest this will change anytime soon.

We intend to stay the course even after this pandemic moves off the front page. In a twist of irony, the upcoming presidential election may be just what the doctor ordered to get the media off the coronavirus and back on the election trail.

In the long term, and that is what is most important when it comes to investing, we expect the economy to continue to grow. Historically low corporate tax rates, record low unemployment rates, muted inflation, and a Federal Reserve that wants to see this bull market continue to keep us bullish about the prospects for long term investors. Panics like the coronavirus tend to pass quickly.

If you would like more information, we did send out a fairly detailed email on the virus and the impact we believe it will have on the markets a little more than a week ago. It was written by Michael Sorrentino, and we would be happy to email you a copy.

Going forward, we will continue to watch the markets closely and look for opportunities along the way. As always, we appreciate you allowing us to assist you and thank you for the trust you place in us. If you have any questions, please let us know.

Best,

Robert and your team at Harwood Financial Group

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If you have any questions, please contact us at

800-989-1427 or **727-524-1427**.

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