Blue Barn Wealth
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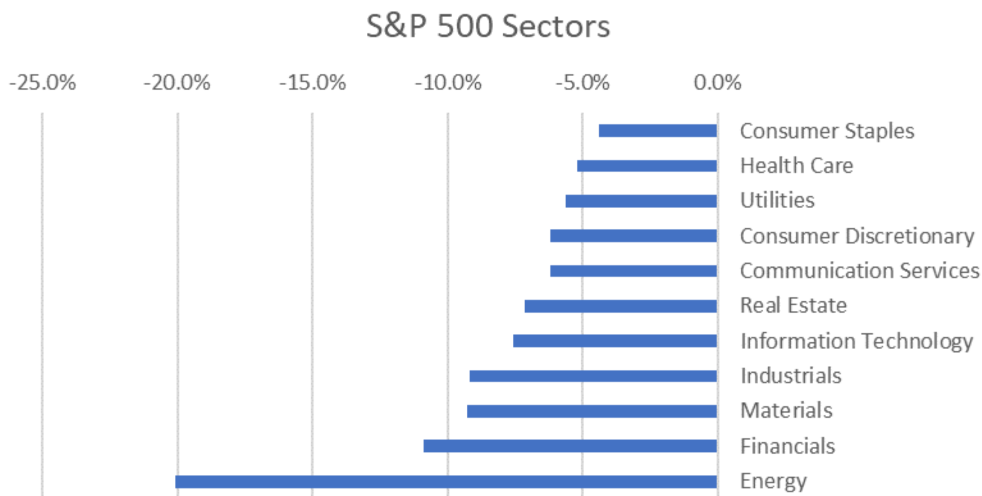
New Employee, Oil Price Collapse, Coronavirus Update, & Stimulus

Mariah Lee

First the good news, we would like to announce that Mariah Lee joined Blue Barn Wealth today. We are very excited to have Mariah as part of our team and know that she will make a significant contribution to the future of our company. Mariah joins us from Fidelity Investments where she was working as a High Net Worth Relationship Advocate. Prior to Fidelity, Mariah worked as an intern at Goldman Sachs and as a Personal Accounts Sales Representative for three years at State Farm Insurance. Mariah graduated with a Bachelor of Science in Finance from Brigham Young University. On a personal note, Mariah and her husband Darian recently had their first child, Kambree. Soon Kambree will be joining her parents in one of their favorite pastimes of riding dirt bikes. Please join us in welcoming Mariah to the Blue Barn Wealth family.

Market Update

Now for the market update. 11 years to the day from the market bottom of the great recession, we experienced the biggest one-day drop in markets since 2008. The S&P 500 dropped by 7.6% and the Dow Jones Industrial Average dropped by 7.8%. The below chart shows how each of the 11 sectors that make up the S&P 500 faired today. The Energy Sector was down by over 20% due to the price war announced between Saudi Arabia and Russia which caused oil prices, as measured by Brent Crude, to drop by 24% ending the day at $34.36. The Financial Sector dropped by over 10% partially due to the fall in interest rates, which is a large source of its revenue.



Today's sell off has the S&P 500, the DJIA, and the Nasdaq on the edge of entering a bear market which is defined as a 20% drop from the most recent high. The table below shows that each of these indices has dropped by around 19% since their highs in mid-February. The Russell 2000 which is a benchmark for Small-cap stocks is already in bear market territory dropping nearly 23% since February 20.

Index	All Time High		Today		%Δ
S&P 500	3,386	19-Feb	2,747	9-Mar	-18.9%
Dow Jones Industrial	29,551	12-Feb	23,851	9-Mar	-19.3%
Nasdaq	9,817	19-Feb	7,951	9-Mar	-19.0%
Russell 2000	1,696	20-Feb	1,313	9-Mar	-22.6%
Barclays Aggregate Bond	114	19-Feb	118	9-Mar	3.1%

Over this same period, the Barclays U.S. Aggregate Bond Index has gone up by 3.1% with the 10-yr US Treasury Yield dropping below 0.50% and the U.S. Federal Reserve lowering rates in an emergency meeting by 0.50%. Many expect that the Fed will lower

rates again in their next meeting by another 0.25-0.50%. These lower yields indicate that the prices of bonds are rising as investors seek safety from the falling stock prices. For those of you with a portion of your portfolio in high quality bonds, hopefully you take comfort in knowing that your portfolios have dropped less than what you read in the headlines about the broad stock markets.

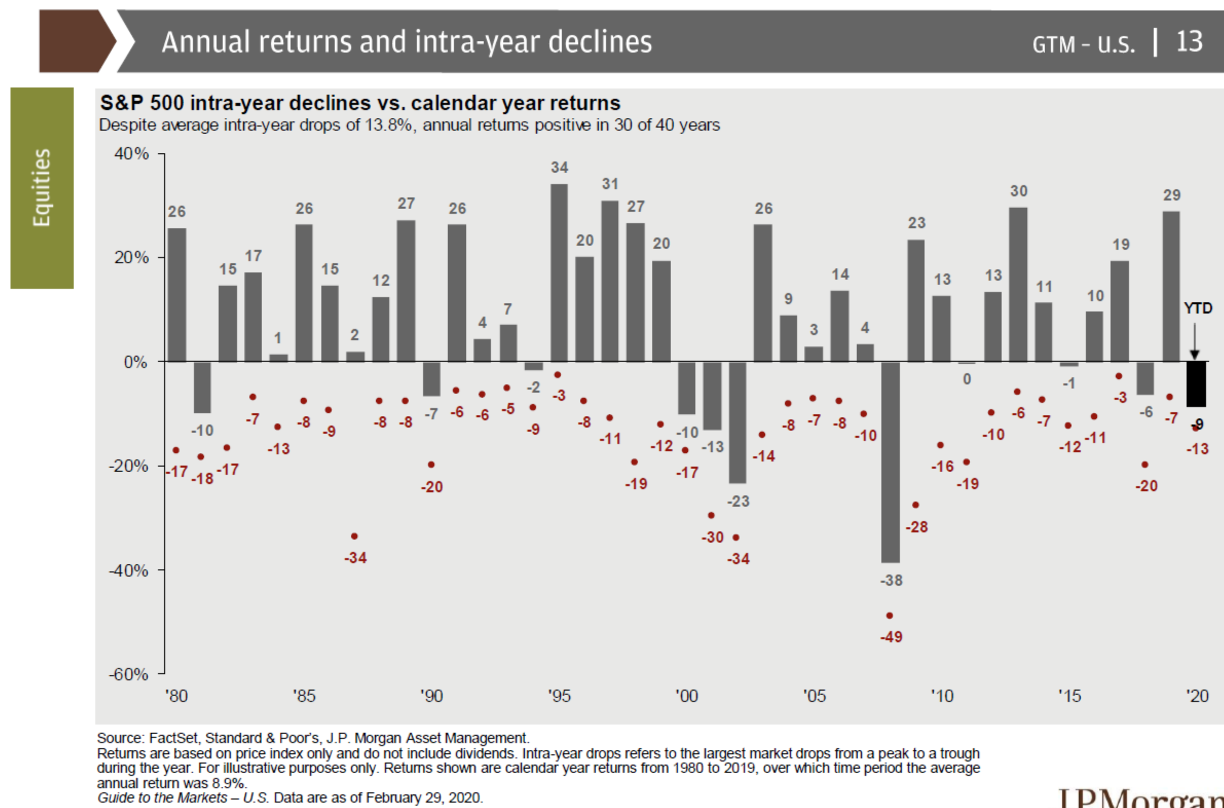
In addition to concern over the price war, oil prices also were pressured due to the expected reduced demand that may be caused by the quarantine and isolation efforts governments are putting in place to slow the spread of COVID-19. Italy announced over the weekend that around 17M residents were not able to leave their area and should remain home as much as possible. Today, Italy's Prime Minister extended the restrictions to the entire country. They have canceled sporting events, closed schools until April 3, restricted social gatherings, and told their citizens to seek permission for essential travel. Restrictive measures such as these could have a big impact on the demand for oil and gas around the world. Other countries, cities and states are currently considering what measures they will take to limit the spread of the disease. These restrictive measures will have negative effects on airlines, cruise ships, restaurants, and countless other small businesses that rely on customers using their services or coming to their stores to buy products.

With nearly 114,000 confirmed cases throughout the world, it seems that the initial efforts to prevent the spread of COVID-19 have not been effective. If the 2009 H1N1 (Swine Flu) Pandemic is any indication, we are still in the early stages of the spread of this disease. According to the Centers of Disease Control, "the swine flu infected nearly 61 million people in the United States and caused 12,469 deaths. Worldwide, the CDC estimated that 151,700-575,400 people died from the virus infection during the first year of circulation" (https://www.cdc.gov/flu/pandemic-resources/2009-h1n1-pandemic.html). This implies that there was around a 1 in 5 chance of catching the H1N1 virus in 2009-2010. Fortunately, the death rate for the swine flu was only around 0.02% (https://www.reuters.com/article/us-flu-h1n1-pandemic/swine-flu-infected-1-in-5-death-rate-low-study-shows-idUSBRE90O0T720130125). The early death rate numbers for COVID-19 vary widely depending on which population is used but all studies that we have seen report a death rate much higher than the swine flu. The possibility of similarly widespread contagion with a higher death rate seems to be responsible for the current market uncertainty.

While there is certainly reason for concern and substantial economic harm caused by COVID-19, the question is what the best course of action at this point is. The following

charts hopefully provide some perspective on historical periods of market uncertainty and what proved to be effective methods of handling the uncertainty with the benefit of hindsight.

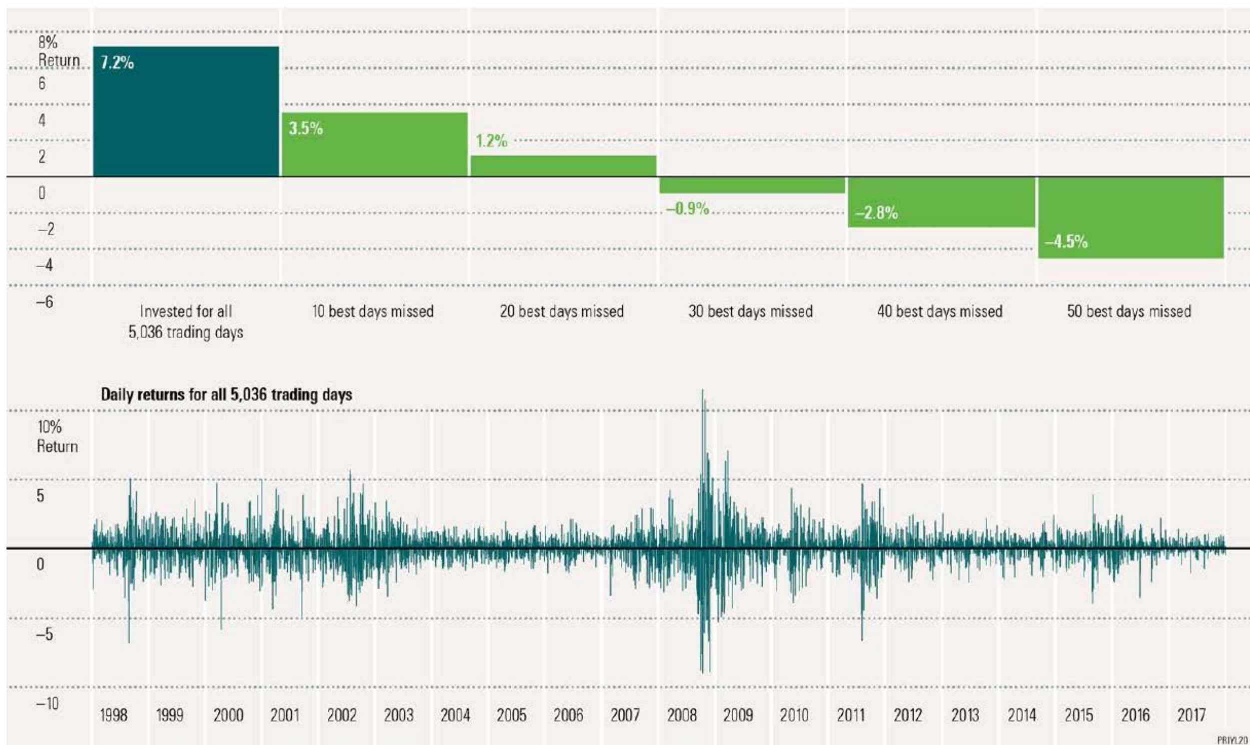
The first chart, courtesy of JP Morgan, shows the annual return for the S&P 500 Index going back to 1980 along with the largest decline from high to low during each year. Over this 40-year period, the S&P 500 had a positive return in 30 out of the 40 years. Even thou the returns were positive 75% of the time, every year experienced a decline from a calendar year high. On average, the intra-year decline was 13.8% per year. During the most recent 11-year bull run for the S&P 500, there were two years, 2011 and 2018, with an intra-year decline of just under 20% or where we sit today.



The second chart, courtesy of Morningstar, shows the potential cost of trying to sell your investments during a period of volatility to avoid losses. This chart shows that the average annual compounded return for the S&P 500 from 1998 through 2017 (5,036 trading days) was 7.2%. This is a period that included two major market drops with the dot com bust and the housing crisis and it still had a decent compounded return for

those who held their investments throughout the drops. However, if you happened to be invested for only 5,026 out of the 5,036 trading days and the 10 days you missed were the 10 days with the highest returns, your average annual compounded return would be cut in half to 3.5%. The reason this is important is the best trading days usually happen during times of market volatility like we are experiencing now. For example, a week ago Monday, we unexpectedly had a return of around 5% in the S&P 500. Getting in and out of the market at the wrong time can have a negative effect on your long-term returns.

The Cost of Market-Timing
Risk of missing the best days in the market 1998–2017



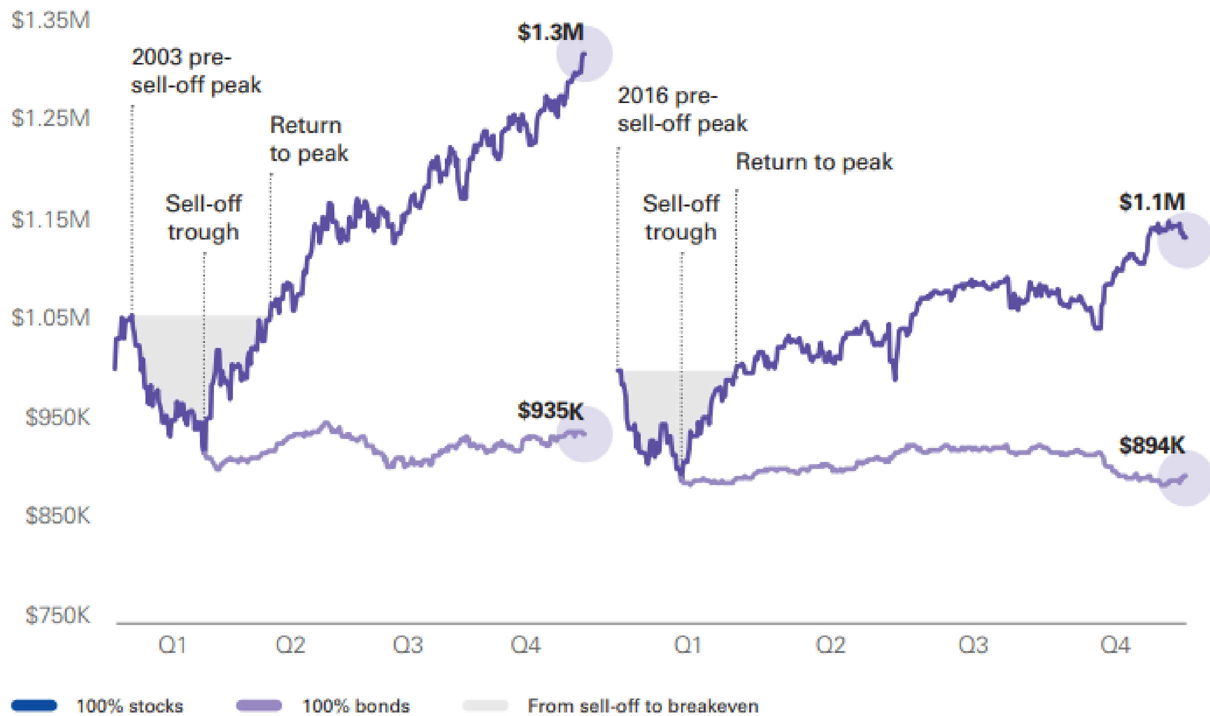
Past performance is no guarantee of future results. This is for illustrative purposes only and not indicative of any investment. An investment cannot be made directly in an index. © Morningstar. All Rights Reserved.

The last chart, courtesy of Vanguard, shows what would have happened during past market drops that coincided with the health scares SARS and ZIKA if you had sold your stocks and bought bonds when the market was down. It is a dramatic case because it assumes that you sold your stocks at the bottom to buy bonds. However, the reason a market hits a bottom is because so many people are selling. In both cases, the market returned to pre-crisis levels within a few months and investors were much better off holding their stocks through the drop.

We do not want to imply that the recovery from the recent drop caused by COVID-19 will be as quick as what we experienced with SARS and ZIKA. However, we do believe that the principle of not selling out of your growth assets after the market has already dropped continues to be wise.

2003 SARS sell-off

2016 Zika sell-off



Source: Vanguard calculations, based on data from FactSet.

Notes: U.S. stocks are represented by the S&P 500 Index. U.S. bonds are represented by the Bloomberg Barclays U.S. Aggregate Bond Index through December 31, 2009; Bloomberg Barclays U.S. Aggregate Float Adjusted Index thereafter.

The performance of an index is not an exact representation of any particular investment, as you cannot directly invest in an index.

Stimulus

In a news briefing this afternoon, President Trump stated that he will be announcing fiscal stimulus measures intended to counteract the potential impact of the Coronavirus tomorrow. This is in addition to the emergency 0.50% interest rate cut the Federal Reserve already made. For us the takeaway from these announcements is that the United States Government is willing to take large corrective actions to help stabilize the economy during this period of uncertainty. We will wait to see if these policies prove effective but view this as a potential catalyst to limit the drop in the equity markets.