JAFFE WEALTH MANAGEMENT
& CONSULTING, INC.
An Investment Advisory Firm

March 20, 2020

RE: COVID-19

Dear Clients, Friends, and Family,

I am writing this letter on behalf of all of us here at the office, to provide perspective regarding the coronavirus pandemic. In times like this, there is a plethora of information available from many different sources. I have elected to give you some initial thoughts related to three key areas: *Historical Perspective*, *Current Economic and Market Conditions*, and my take on *What the Future Holds* for us.

Historical Perspective

Some people will try to say, "it's different this time." I think every time a major crisis happens, while there are certainly differences, the long-term results are typically similar – we overcome. Concerns can sometimes lead to panic, and panic is exactly what we should **not** do. What we should do is take a deep breath and reflect. We re-group, re-evaluate, re-build, re-engage, and move on to new economic highs. Throughout history the American people, along with many free economies around the world, have rebounded, and moved forward. The COVID-19 virus will be contained, and we will come back!

We have seen epidemics like this before. Let's think way back to the measles, mumps, chicken pox, or polio, just to name a few. Then, more recently, we've had SARS, avian flu, swine (H1N1) flu, MERS-coronavirus, Ebola, Zika, and good ole' influenza, or the common flu. Each time our medical scientists, both public and private, have come together, working tirelessly to resolve the issue. For example, the common flu virus continues to change each year, and each year our medical research doctors and companies provide updates to the annual flu shot.

The Federal government is now working along with many private companies to resolve the problem. This public-private partnership is amazing to watch unfold at lightning speed and reminds me of the response to 9/11 with the creation of the TSA to assist the airline industry.

For perspective, we should remember that following 9/11 the markets were completely shut down for four whole trading days. The New York Stock Exchange has actually shut down numerous times in its 200-plus year history for a variety of reasons. Physical trading on the floor was halted this week due to social distancing requirements, but thanks to advancements in technology this caused no disruption to the functioning of the markets.

I say this to highlight how far we have come since 9/11/2001. The Dow Jones Industrial Average closed September 10, 2001 at about 9,605. It bottomed about 10 days later at around **8,235**, a decline of about 14%. But the decline isn't even the important number. As of this writing on Thursday, March 19, the Dow closed at **20,087**. Let that sink in. The value of the companies that comprise the Dow Jones Industrial Average have **more than doubled** in about 18.5 years, and that's **after** a more than 30% drop from the highs of barely a month ago. This doesn't even include dividends over this time (data is similar if we were to use the S&P 500). That's the power of the American economy; that's the power of the free market;

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that's the power of **us**. And don't be mistaken, if you've owned stocks over this period – if you've owned companies – you've contributed to this amazing growth and prosperity.

Current Economic and Market Conditions

First, this viral outbreak has greatly affected all our lives and our economy. We must understand the nature of this pandemic, though. We maintain that this is first and foremost a **health** crisis. This health crisis will indeed lead to severe economic disruptions. However, it is not a problem with the economy as a whole, or even a sector of the economy. Let me be clear, regulations put in place after the financial crisis have ensured that banks are nowhere near the debt levels they exhibited in 2008.

Until just about a month ago, our economy was running smoothly and on all cylinders. We have been at effectively full employment (aka: extremely low unemployment) for quite some time. This event is a clear disruption. The coronavirus has come in fast and furious. Thankfully, Washington understands the uniqueness of this situation, and we expect a stimulus plan to be passed by next week at the latest.

Of course, when you bring commerce to a screeching halt, a market contraction is inevitable. Government stimulus will lessen the blow, but there will still be a significant blow. Moreover, we are dealing with an overwhelming amount of "bad data". Markets certainly don't like bad news or lack of earnings, but they **hate** uncertainty. This uncertainty, along with the panic nature of a pandemic, has resulted in the steep drop in the markets. We believe defeating this virus is the quickest way to get our economy back to full capacity.

Today, doctors and researchers around the world have put other projects on hold. They are working with unprecedented efficiency to beat this outbreak on all levels – testing, treatment, and vaccines. Moreover, this epidemic has struck a match under Washington to rapidly remove cumbersome red tape that has plagued the system for years. This has led to approvals and action at a record pace. They will continue to improve how we test, treat, and immunize going forward. I am truly amazed at how fast they are getting things done. Are we there yet? No. But we are certainly on the fast-track.

What the Future Holds

The value of companies will come back to previous levels and beyond. They always do. Yes, some will go out of business, as some do every year, but others will be created to take their place. Earnings were extremely strong before this event, and we believe they will come back even stronger. Crisis leads to opportunity, and we want to be in the game when it happens.

We are monitoring data and news hour by hour. This is a uniquely fast-moving situation. We are considering various ways to take advantage of this opportunity. We may rebalance and re-allocate some portfolios, with tax consequences in mind. After all, when you're given lemons, make lemonade. However, the philosophy of long-term equity ownership remains the same.

Meanwhile, Washington will be ensuring the liquidity and cash needs of individuals and small businesses in order to keep the economy moving along. Large businesses will also likely get some help. This cash liquidity will allow companies and people to weather the storm and be ready to move on and re-open when the coast is clear to do so.

We know that every single downturn (bear market) in history, for whatever reason, eventually stops going down, hits a bottom, and then starts to go back up. Maintaining ownership of companies and maintaining calm through these times rewards investors. We do not know if we have hit the bottom or not. Only time will tell. However, we do know some things:

1. Based on even the worst earnings projections, companies are undervalued at their present levels.
2. Crisis leads to opportunity.
3. We will get past this and ultimately reach new highs in the future.
4. A long-term focus is the only thing that works.

In WWII, we had to go on food rations so we could feed our troops. We had to buckle down to conserve resources. In the end, the American people did what was asked of them, and we survived! We then thrived, and we lived on to the next event. How we deal with it is important.

If you are feeling exceptionally scared or anxious, please remember that we are here to help you through this difficult and strange time.

Sincerely,

Edwin H. Jaffe, CFP®
And for the rest of our Team: Bridget, Brad, Rob, & Delaine.