



ALTIUS
Financial

Empowered Future Report

Short term thoughts about long term matters

March 16th, 2020

Quote of the Day:

"The point of power is always in the present moment." – Louise Hay

Don't Stand So Close to Me – Taking Social Distancing Seriously

First, I hope you and your family are in good health and spirits during this difficult time. Like all of you, I am working through the personal impact of the COVID-19 virus. Paying attention to the authorities, my family and I cancelled our birthday celebration for my sister who turned 60 over the weekend – we're all in good health and my folks are in their 80s, so we felt like caution made sense. My daughters are wondering how the world can change so fast – I suppose it's natural for kids who, a few weeks ago, would have welcomed an extended Spring Break to now want to be with friends and not holed up with Netflix. I am closely monitoring my own personal health and, of course, doing my best to manage my responsibilities to each of you and ALTIUS. I generally advocate for preparedness anyway so haven't really been stocking up much more at the grocery store.

A few comments on "social distancing" – no one used this phrase a month ago and now it's the cornerstone strategy to the world's efforts against COVID-19 and we at ALTIUS are using it too in limiting the impact of this health crisis. I have cancelled upcoming travel, both business and personal, to not take chances and to be here making the best allocation and advice decisions we can for you, our clients.

The key reason for "social distancing" measures is that this virus has a longer incubation period - people can be asymptomatic for up to 14 days. My understanding is that is what makes it potentially more dangerous than more lethal viruses (like Ebola) since it can spread faster without people knowing. I'm hopeful that our government won't institute any dramatic Marshall Law-like restrictions that we've seen in several European nations so please continue urging everyone you know to voluntarily cooperate and restrict social interactions. In our interconnected economy, such isolation is unsustainable for the long term, but it seems like sound advice to ensure the healthcare system does not get overwhelmed. For an interesting

simulation on how social distancing can outperform either quarantines or free for all behavior, [take a look at this](#).

***If any of you have in-person reviews scheduled over the next month, we would like to invite you to have it done over the phone or using video conferencing like Zoom or our sharing app within My Empowered Future Program.**

Also, we currently have a workshop scheduled for March 31st, but our building just today cancelled all meetings in our conference room. We think this is wise and we're tentatively thinking that we'll do a Zoom version of it. Keep an eye out for more information.

I encourage you to closely follow guidelines to keep yourself healthy, such as washing your hands often, avoiding large group gatherings and limiting potential exposure as much as possible. If you are in a high-risk category or are the primary care provider to someone in a high-risk category, I encourage you to take these steps even more seriously.

Our priority is the health and wellbeing of our team members and clients so we might be implementing work-from-home (WFH) during this crisis. However, it's our aim to be extra accessible and responsive to your needs so feel free to reach out with concerns.

Federal Reserve Fighting Coronavirus

As you might remember, during the 2008 financial crisis I was skeptical about rate cutting, bailouts, general intervention by the Federal Reserve Bank and I'm just as skeptical about such intervention now. My view is that interest rates are not something that should be tinkered with by a small number of admittedly intelligent economists but should be left to the laws of supply and demand. Instead of waiting until the meeting scheduled for this Wednesday, the Fed announced a broad set of new policies yesterday.

First, the Fed cut the funds rate by a full percentage point (100 basis points) to a range of 0.00% - 0.25%. That's where it was after the financial crisis, from December 2008 through December 2015. Second, the Fed will buy an additional \$700 billion in securities (\$500 billion in Treasury debt and \$200 billion in mortgage securities). That's on top of the recent expansion of repurchase agreements. The Fed also cut the discount rate by 150 basis points to 0.25% and signaled regulatory forbearance for those banks that use buffers to help households and businesses. The Fed is acting in harmony with other central banks to make sure there's ample liquidity and they are making it clear that they will keep rates near zero until the economy has weathered the Coronavirus and is on track to meet the Fed's targets for the job market and inflation.

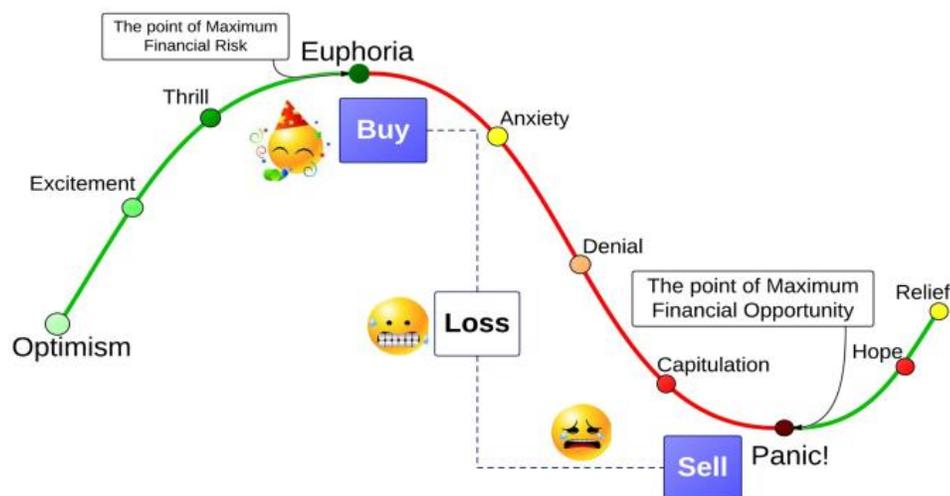
These measures, while potentially welcomed by investors in the short term, continue to make our economy more and more dependent upon central planning and that has ominous long-term consequences for the dynamism and innovation that has characterized the US economy compared to the rest of the world for the last couple centuries. Part of why we've recently been vulnerable to shocks like this virus, is due to the inevitable misallocation of capital that happens with such central planning. The foundations of a free society remain unchanged: whenever entrepreneurial individuals and businesses that are free to think, create, and cooperate in a system that embraces voluntary trade, individual liberty, peaceful relationships, and rewards value creation - innovative solutions emerge and society is more prosperous.

I do think there's a chance that the economy could even escape recession this year but that depends on social distancing working, such that investors see normality coming back to our daily activities.

Reminder – the Contrarian Nature of Value Investing

One of the first key concepts that we introduce clients to is the *cycle of emotion* and how it relates to investing success. When most are comfortable with risk it might be the time to be most concerned; when others are panicking is often the time to be opportunistic. Over the last few years, we've been more conservative given valuations and today, we're much more likely to be buying, though not aggressively so yet.

Cycle of Emotion



“In Investing, what is comfortable may rarely be profitable.”

Warren Buffet

We never know what catalyst will drive volatility up or down but, if we keep our eye on valuations, we seem to do better in the long run. The graphic above is designed to remind us about this counterintuitive nature of investing.

It's interesting that during this current downdraft in the major indexes, there are a lot of babies being thrown out with the bathwater: fully 498 of the 500 stocks in the S&P 500 are now in bear market territory (down 20% or more). Such indiscriminate selling happens when investors don't understand what they own and/or how much risk they've taken.

As an example, one of our largest holdings is Berkshire Hathaway which has been selling at a lower multiple than the broad market all while their management was accumulating more and more cash. Warren Buffet, CEO of Berkshire, has a reputation of deploying such cash very effectively during such times of crisis and while there's no guarantee that he'll be as successful this time, I do think it's silly how investors are treating such well capitalized companies. **This should not be taken as specific investment advice and Berkshire may not be appropriate for all investors.*

The Good News

While I think it's crucial to pay attention to the seriousness of the situation and the social distancing recommendations of credible scientists and healthcare experts, I also think it's important to recognize that the world has never been in a better place to deal with such a pandemic. Here are some positive bullets I read recently from Ignacio López-Goñi, a professor of microbiology and virology at the University of Navarra in Spain:

- **We know what it is.** This virus was identified within seven days of the official announcement on 31 December, and, three days after that, the gene sequence was available. HIV, by contrast, took two years to identify after it first appeared in mid-1981, López-Goni noted.
- **We can test for it.** While it seems clear that our government botched the initial phase of testing, there is a big push to get more testing done faster.
- **We know it can be contained.** On Thursday 120 new cases were reported in Wuhan, the lowest figure for six weeks. They took some draconian steps and that's why our healthcare officials are stressing the need for social distancing.
- **Catching it is not that easy** (if we are careful) and we can kill it quite easily (provided we try). Frequent, careful hand washing, as we now all know, is the most effective way to stop the virus being transmitted.

- **In most cases, symptoms are mild**, and young people are at very low risk. As of this writing, there are 63 deaths in the U.S. due to coronavirus, 40 of which are in Washington State. Most of the Washington deaths involved patients at a skilled nursing facility in Kirkland, elderly and with underlying medical problems.
- **People are recovering from it.** As the daily count maintained by the Johns Hopkins CSSE shows, thousands of people around the world are making confirmed recoveries from the coronavirus every day. I saw a story with a 100-year-old Chinese man who has recovered from the disease. I stress that this is not the norm and the elderly are considered to be the most vulnerable, but it does give one optimism.
- **Hundreds of scientific articles have already been written about it.** Research is hot on this virus - while it may take some time to fully understand it and develop antivirals and/or vaccines, we've never seen such an exponentially fast response from researchers from around the world.
- **Vaccine prototypes exist.** Commercial pharmaceutical and biotechnology labs such as Moderna, Inovio, Sanofi and Novavax, as well as many academic groups, many of which were already working on vaccines for similar Sars-related viruses – have preventive vaccine prototypes. I only hope there is a realization of how desperate we are to remove regulatory barriers to get vaccines to people sooner.
- **Dozens of treatments are being tested.** More than 80 clinical trials are under way for antiviral treatments, according to Nature magazine, and most have already been used successfully in treating other illnesses. Drugs such as remdesivir (Ebola, Sars), chloroquine (malaria), lopinavir and ritonavir (HIV), and baricitinib (rheumatoid polyarthritis) are all being trialed on patients who have contracted the coronavirus, some as a result of the application of artificial intelligence.

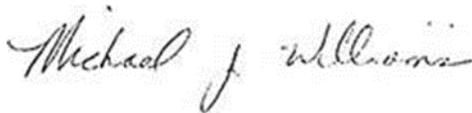
I don't provide the above list to make you ignore the crisis – it's serious and we cannot stress enough the need for vigilance in y(our) hygiene and social distancing. Let's not fool ourselves. This virus will spread, but ensuring we slow that spread and "flatten the curve" is important to preventing the overtaxing of our healthcare systems and preventing unnecessary loss of life.

And...it's not the end of the world any more than all the other "ends of the world" I've experience in my 30+ years of investing: from Black Monday in October of 1987, to Y2K, to 911, to the financial crisis and the Swine Flu...none of these crisis and downturns in the financial markets lasted and I'm betting this one will pass as well. It's incredible how we forget the *panics from the past* and that's a good thing, if only we can learn and retain the essential lessons from them.

Lastly...

Not to over dramatize, but I write this with a profound sense of obligation to you - our clients, your families, our team members and our community. Our services are key in helping you be secure in your financial future. The first priority is, of course, to protect the safety of our employees and our clients. Long-term, it's to build, grow and defend your capital and we are honored that you trust in good times and bad.

We are all in this together, and I know we can count on each other to ensure we make it through this successfully. Without any doubt, things will happen that we weren't expecting. Take the time to stay connected with us and we'll continue working our financial plans and communicating as best we can with you.



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