Claro Market Insights
Fear is as major motivator… often to an investors' detriment

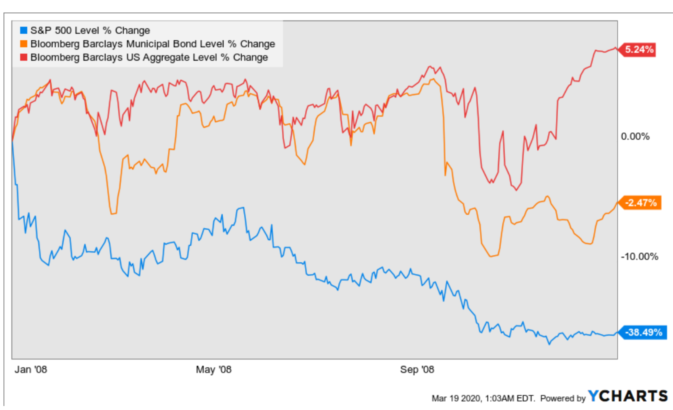
Fear is a major motivator

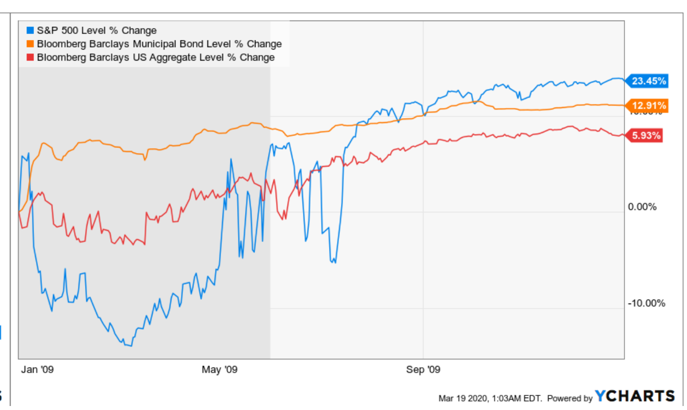
Fear of health
Fear of safety
Fear of job loss
Fear of money loss

All of these are contributing to people's motivations during this recent outbreak. Our access to news, twitter feeds, and other peoples' opinions are creating some brief moments of hope, followed by long periods of despair. Is some of it warranted? Yes, most definitely, at least until there is more clarity that things are under control and we are indeed reaching an end to this pandemic.

Within the financial markets we have seen widespread panic from investors of all types seeking shelter at first in less riskier assets such as treasuries, municipal bonds and even corporate bonds, as investments like stocks were being sold. Now we are seeing investors selling virtually all asset classes as people are favoring cash over anything else. Is this a new phenomenon? No, it's a natural and emotional instinct for people to preserve capital during times of crisis. It gives them a sense of security knowing that they have cash if needed. But is it the right thing to do? Probably not.

We have seen this to varying degrees even during the most recent recessions. In September of 2008, after Lehman Brothers declared bankruptcy and the Primary Reserve Fund "broke the buck" when its net asset value (NAV) dropped below $1, fixed income investors "rushed for the exits" and sold off anything they deemed remotely risky, including bonds and stocks of troubled banks and even municipalities they deemed "at risk". This fear and panic selling only exacerbated the ongoing selloff in the stock market. In October 2008, Congress established the $700 billion Troubled Asset Relief Program (TARP) or Bank Bailout Bill which helped calm fixed income investors' fears. And in February 2009, Congress passed the $787 billion American Recovery and Reinvestment Act providing the much-needed stimulus to end the recession. Both the municipal and U.S. Aggregate indices recovered after the TARP enactment in October 2008 and finished higher in 2009 as well. While stocks bottomed on March 9th, 2009 and rallied 65% over the remainder of the year.





If you were an investor who sold out of fear during those times, you likely were left watching from the sidelines when markets recovered. Fear can be a major motivator… often to an investors' detriment.

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So should investors be willing to stick it out, even during these seemingly chaotic times? Is this time different?

Each time is certainly different in its own way. The speed and voracity of this decline has been unprecedented. Usually it happens over a period of 6-12 months as markets selloff, they often even rally intermittently before finding a bottom. In this case, it has been non-stop bad news and fear to which investors have reacted accordingly. And it could get worse before it gets better. A bad scenario would be if the virus spread continues for months or even a year, if more people get sick and are out of work much longer, this would really halt the economy. The more favorable scenario is that we are able to flatten the curve faster, people get healthy and are back to work quicker. Even though it would still hurt, and a lot of people would suffer economically, it would be reparable, and a recovery should happen much quicker.

The monetary stimulus from the Fed is a welcome injection of capital into a system that has not been functioning as fluidly as needed. The $1.3 trillion government stimulus being put forth by the administration and Congress is also much needed to help people who are temporarily out of work and to help businesses that need cash to operate. Overseas, other central banks and governments are doing the same as the ECB announced a 750 billion Euro bond-buying program. This capital injection should help calm people's fears and buy us time to stop the spread of the virus and treat the people who currently have it. No one expected 2020 to be the year the world got sick. It's not the situation that anybody wanted, but it's the situation we are faced with. And now we have to stop the spread and find the cure. If you believe in American or even global ingenuity, then you know that's what will happen.

After we get through this difficult time, the world will be open for business, kids will go back to school, and people will start working again. We will once again be faced with earning money, saving it and growing it for our futures. As an investor, as long as you believe that in 3 years, 5 years, and even 10 years from now that U.S. companies will be making things that people want to buy, providing services that people need and doing it in a manner that benefits people and the companies, then those companies should be worth more in the future than they are today. If you do believe that, then you want to be invested today for tomorrow. When markets are down, like they are now, it hurts. You have to try not to react emotionally and instead have the stomach to stay invested. "In the stock market, the most important organ is the stomach. It's not the brain." -Peter Lynch

In the meantime, please do your part by staying healthy. Follow the stay at home policy and enjoy time with your family. We are fortunate to have things like cell phones, messaging, facetime and email to stay connected. We are here if you need us for anything and are working diligently and prudently to manage your investments.

Be well!

Mike

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