The Krygier Report: SPECIAL EDITION

An exclusive newsletter from Mark J. Krygier, Vice President & Portfolio Manager | February 2020 www.krygierwealthmanagement.ca

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Coronavirus Concerns

Not surprisingly, with all of the recent market volatility surrounding the impact of the Coronavirus, we have received a couple of phone calls and a few emails from concerned investors. I recognize that others may also be concerned, but have not contacted us, so while I will be addressing the issue of the virus and its impact on investments in my upcoming newsletter, which will be sent out next Monday, the first business day of March, I wanted to send out an email on a more timely basis as well.

I read a brief report published this week by RBC Global Asset Management, which addresses the impact of the Coronovirus. I have also been reading numerous reports to try and glean some insights into the potential economic impact of the virus, as obviously for those directly impacted by it, we empathize with them and wish them and their families a speedy recovery.

The question for investors specifically, is what impact will this virus and the attempts to contain it have on their investments? In the short-term, it is clear that negative volatility impacts just about every asset class, so that is never a good judge of the long-term. Just as the markets in January and early February were rising on positive volatility, which drove up the prices of many investments higher than made sense based on actual earnings growth, so too as the markets recently are being driven lower, most asset classes fall in price, often lower than is justified by actual earnings growth. No doubt there are some countries, industries, and individual companies which may suffer actual financial loss from which they may take time to recover. To that end, we have gone through every single investment we own in each of our managed portfolios, looking for such longer-term potential impacts. We actually made three changes this week to reduce exposure to the Chinese economy and the potential longer-term economic ramifications, but beyond those changes we are quite comfortable that we are holding financially solid investments that will continue to provide growth and income for our investors over the long-term, notwithstanding the recent volatility. As well, in January we trimmed several overpriced positions while adding gold exposure as a hedge, which has worked out well.

One interesting point which I note in my upcoming newsletter, but which I believe is worth mentioning here as well, is a study I saw mentioned by "Marketwatch", which looked at past viral outbreaks and the impact they had on the global stock markets. The most important factor from a health perspective is that "**mortality from epidemics has been declining for two decades**, despite the succession of SARS (2003), H1NI/Swine flu (2009), Ebola (2014) and MERS (2015)".

The study looked at the following outbreaks from June 1981 to June 2019:

HIV/Aids (1981)
Pneumonic Plague (1994)
SARS (2003)
Avian Flu (2006)
Dengue Fever (2006)
Swine Flu (2009)
Cholera (2010)
MERS (2013)
Ebola (2014)
Measles/Rubeola (2014)
Zika (2016)
Measles/Rubeola #2 (2019)

The first thing that I noticed is the frequent number of outbreaks – it seems this is a reoccurring phenomenon every few years.

The second thing that I noticed was the result on markets. On average, 1-month after the outbreak, the MSCI World Stock Market Index was up 0.44%, 3-months later it was up 3.08% and 6-months later it was up 8.50% As the report concluded, "**the economic and market impacts** stemming from the latest Coronavirus outbreak **are likely to be material but ultimately fleeting**." And I can't sum it up any better than Warren Buffett, who recently said, "we certainly won't be selling."

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