Perspective: Black Swan or Boogeyman?

Feb 27, 2020

A Black Swan Event … or Boogeyman at the Top? Mathematicians often refer to a bad, low probability incident as a Black Swan Event – something that adversely disrupts life that is not of our own making. It was only a month ago that the market was on a fairly smooth trajectory higher with no serious headwinds. Now the Coronavirus has burst onto the scene, sickened 82,000, killed 2,800, brought terror to much of the world, and chopped 12% of the market's value in one week with no sign of abating.

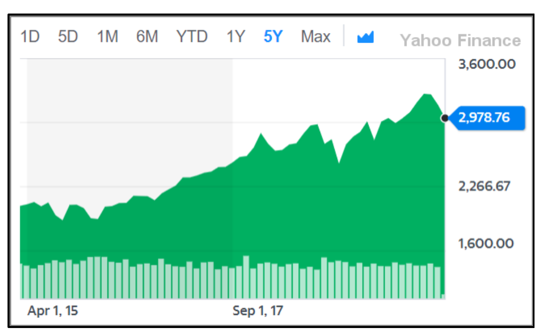
S&P500 Index - 5 Days

While we must be compassionate and act prudently to stay safe and help reduce the overall threat, we must also answer this investment question: “What's the best bet now in view of similar prior events?” It’s easy to get swept up in the fear of a collapsing market and run for the hills, but it's likely not the best thing to do. I’ve gathered below some worthy pieces of information for your consideration. While significant unknowns remain, we have serious investment decisions to make.

The Bigger Picture – and Market Corrections

When the market is viewed over a five year period (right), this week’s market drop looks fairly ordinary – and it is. It is the nature of a bull market to be generally optimistic with occasional reality adjustments triggered by punctuated events, such as trade wars, hurricanes and pandemics. A serious “market correction” is commonly defined as a loss of 10% or more from a recent market high. That threshold was reached mid-day on Thursday. However, many traders believe that the 10% rule is not met unless it is true at market close. Although the market seriously rebounded after mid-day, by day’s end the self-fulfilling prophesy crowd appears to have been successful, taking the market

S&P500 Index - 5 Years

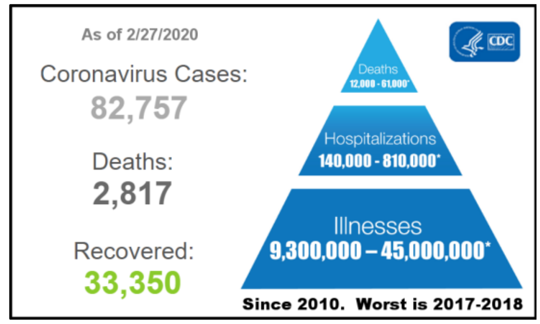


down 12% and scaring the hell out of the rest of us.

How Coronavirus Compares to the Common Flu

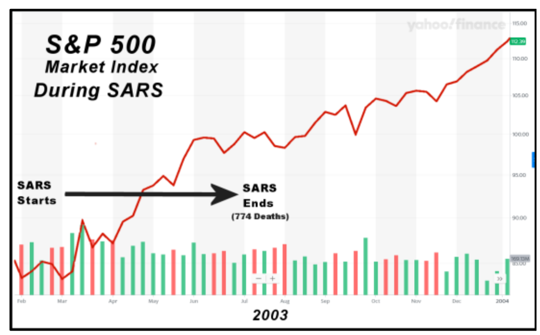
The best resource I have found for current Coronavirus statistics of all kinds is found HERE. Statistics for the common flu from the CDC are illustrated in the graphic (right) alongside the current Coronavirus statistics. In the 2017-2018 flu season, there were 60,000 deaths in the US from the common flu – and more than 10 times that amount throughout the world. Thus far we have 2,800 deaths worldwide from the Coronavirus, about 0.4% of the expected death toll of the common flu, and a very disproportionate response. We have apparently accepted the social and economic disruption of the common flu, but are terrified of the newcomer.

S&P500 Index - 5 Years



How Coronavirus Compares to SARS

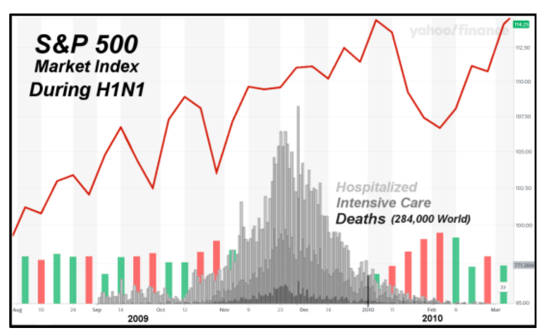
A great resource for comparing the Coronavirus and SARS can be found HERE. The chronology of events over the past few weeks for the Coronavirus and SARS are strikingly similar. SARS killed 774 people and infected 8,098 between November 2002 and July 2003. The Coronavirus, known as COVID-19, has killed nearly three times as many people in its first eight weeks. The Coronavirus virus shares 80% of its genome with the SARS virus, according to recent research. Both have had similar panic reactions and precautions taken. Interestingly, as illustrated in the chart (right), there was no discernable market reaction to the SARS outbreak.



(click to enlarge)

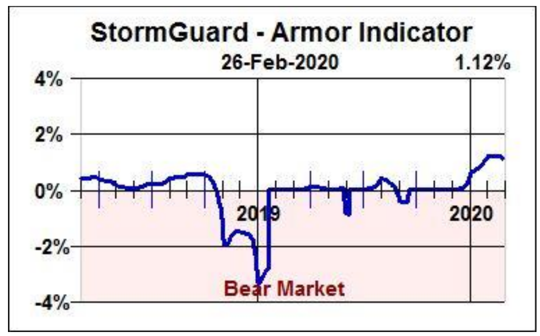
How Coronavirus Compares to H1N1

According to a recent NPR article HERE, the World Health Organization said, "Despite worrisome new outbreaks in Iran, Italy and South Korea, the coronavirus disease … is not currently a pandemic … [It] appears to have plateaued in late January and is continuing on a good trajectory." The CDC estimate of global H1N1 pandemic deaths was 284,000, and the United States saw 60.8 million cases, 274,304 hospitalizations, and 12,469 deaths between April 12, 2009 and April 10, 2010. That's 100 times worse than the current state of the Coronavirus. The chart (right) illustrates how seriously the H1N1 virus affected the markets. Hmmm…



(click to enlarge)

Explaining the Coronavirus Market Reaction
Clearly, there is a serious disparity between the market's reaction to the Coronavirus and its reaction to SARS and H1N1. The difference that sticks out to me is that the SARS and H1N1 outbreaks occurred just after major market bottoms, whereas it was only last week that the market made yet another high. Perhaps the pent up energy of those claiming that we are long overdue for a market correction was sufficient for them to take the market down a notch. However, the Coronavirus has a long way to go to become as serious as the H1N1 swine flu virus, which didn't even make the market blink.



(click for all StormGuard charts)

Panic Selling?
This is the point in time when sharp drops often snap back. Selling now is more likely to become a case of locking in losses while watching the market rebound to higher levels before again buying in. Without a serious reason to believe that the economy is in dire straits, selling now would amount to classic "panic selling." StormGuard-Armor was designed to assess this specific kind of situation and it is not even close to indicating a sell.

Introducing the Tactical Growth and Income Portfolio
We recently posted a new portfolio and index to the site called Tactical Growth and Income. It is a more conservative version of the Bull-Rider Bear-Fighter Portfolio and has a basic allocation of 30% equities and 70% bonds. Of course, StormGuard-Armor is included. Check out the following links to learn more:

(click for full description)

Best Descriptive Information: [The Index Page]
Best Info for Importing to Account: [The Merlyn Info Page]

Surf Well and Prosper,

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