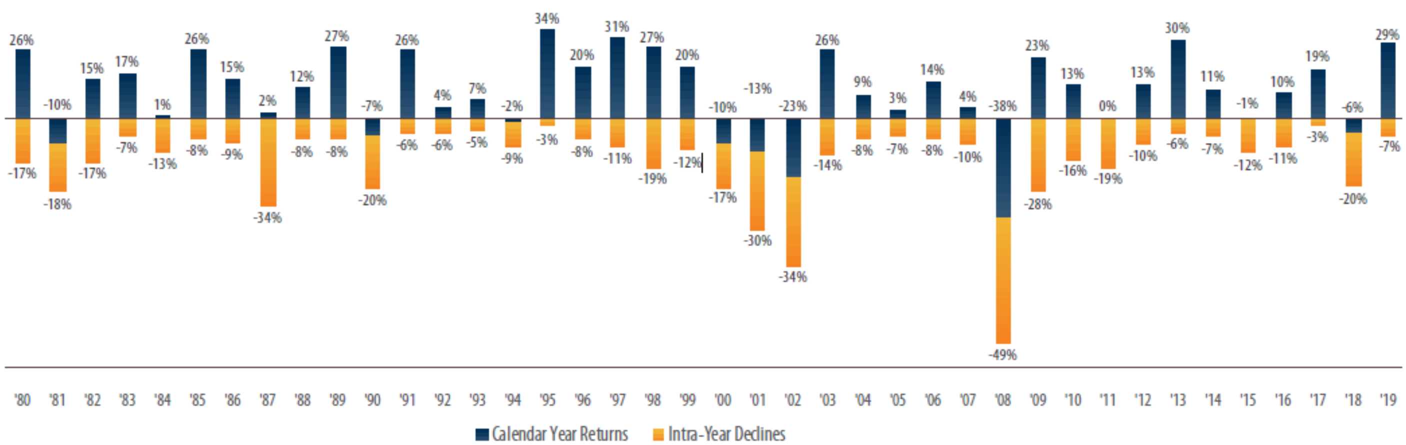
Aldrich WEALTH LP

February 26, 2020

It has been a little over three weeks since we sent the letter discussing the coronavirus and how past epidemics affected stock prices. For most of February, the threat seemed benign and the stock market moved higher with limited volatility. However, after the virus spread to multiple countries last weekend, global equity markets sold off quickly on Monday and the downward pressure continued on Tuesday. Over the last four trading days, the S&P 500 Index is down just over 7% with most of the decline occurring on Monday and Tuesday. Fortunately, investment grade bond prices increased and eased declines of diversified portfolios.

Volatility is not abnormal and should be expected rather than feared. Every year stocks will experience a correction, which has averaged almost 14% for the S&P 500 Index since 1980. Note that despite the intra-year declines, investors have been rewarded for remaining invested as the index declined in only eight of the last 40 calendar years.



Stocks, particularly large cap U.S. stocks, were trading at above-average valuations entering 2020. Therefore, a pullback was likely if any threat to global growth developed. The coronavirus is the catalyst that ultimately triggered the current retracement of stock prices. At this stage, the ultimate impact of the virus on global growth is unknown. However, history tells us that these type of threats tend to be transitory rather than permanent and that growth typically recovers after the virus is contained. As noted in our last communication, the global stock index averaged 3.08% for the three-month period following the beginning of the last 13 epidemics. China, the epicenter or the outbreak, has seen the government take drastic measures to contain the virus and increase liquidity to dampen the economic impact. Nonetheless, we continue to closely monitor the outbreak and could take defensive actions if the virus threatens to meaningfully hurt long-term economic growth.

It is virtually impossible to estimate the ultimate economic and human impact of the coronavirus at this time. However, remaining invested and not panicking during past epidemics and market sell offs has been a profitable strategy. Patience during periods of volatility is difficult, but many of the best days in the stock market have occurred shortly after the worst days. Timing the market is extremely difficult! The best long-term approach is to implement an appropriate asset allocation and avoid reacting to emotions.

Aldrich Wealth Investment Committee