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# PANDEMICS & THE MARKET



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Pandemics pose a real threat, and at some point we will have one. However, most of the time the pandemic does not materialize, and those who fled to the “safety” of cash were forever punished by missing out on the market’s swift recovery.

This was the case with the SARS scare in 2003 and 2004,<sup>1</sup> and with the bird flu in 2005 and 2006. The swine flu caused a near panic in 2009. You might recall the Ebola scare of 2014. All of these were terrible, resulting in many deaths. In all cases, the threat was identified, ultimately contained and controlled.

Today, the Wuhan coronavirus has emerged as the newest threat. As with previous public health related market pullbacks, the issue is that no one knows how many lives will be lost before this too is contained and controlled. One thing is certain – the media is not going to help anyone stay calm, stay invested and ride this through.

To be clear, we have no idea how this will unfold. We do know that this is not the first potential pandemic, and it will not be the last. You will likely hear of half a dozen or more over the course of your life, all of which will pose a real and serious threat.

The question is not about how investors manage their portfolio with this pandemic threat. Rather, how do investors manage their portfolio with all of them, now and in the future?

We have two choices. First, we can go to cash, wait things out, and if this passes, re-enter the market.<sup>2</sup> Historically, this has severely punished investors because, in all cases, the disease was contained and the market went on to new highs before investors could get a sense that everything was under control. Second, we can stick with your long-term plan and stay invested. If we do this, three things can happen:

**STICK WITH  
THE LONG-TERM  
PLAN, KEEP  
YOUR PORTFOLIO  
ENGAGED**

<sup>1</sup> Also likely started with bats. Stupid bats!

<sup>2</sup> If you are guessing I am going to say this is not the correct answer, you are correct!

One, the worst-case scenario is that this unfolds into a terrible, generational pandemic claiming tens of thousands or even millions of lives. The market would be hit very hard as this obviously would negatively impact the global economy in many ways. Eventually, the market would do what it did after every global war, terrorist event, election, market cycle, recession and depression: it will go on to new highs.

Two, the Wuhan coronavirus may be contained, and the market continues to move on to new highs.

Three, the market could simply react to any of the dozens of other major factors that influence market movement, like interest rates, unemployment rates, tax laws, political issues, trade policy and on and on and on.

Our view has been the same, whether it was after President Obama's election, President Trump's election, the inverted yield curve, the tariff war, terrorist events and wars, the Ebola scare and everything in between: stick with your long-term plan, keep your portfolio engaged and if the market pulls back, take advantage by rebalancing into asset classes that get hit the hardest. There are no guarantees in the investing world, but this strategy has worked historically. Every. Single. Time.

Epidemic	Month end	6-month % change of S&P	12-month % change of S&P
HIV/AIDS	June 1981	-0.20	-10.73
Pneumonic plague	September 1994	8.22	26.31
SARS	April 2003	14.59	20.76
Avian flu	June 2006	11.66	18.36
Dengue Fever	September 2006	6.36	14.29
Swine flu	April 2009	18.72	35.96
Cholera	November 2010	13.95	5.63
MERS	May 2013	10.74	17.96
Ebola	March 2014	5.34	10.44
Measles/Rubeola	December 2014	0.20	-0.73
Zika	January 2016	12.03	17.45
Measles/Rubeola	June 2019	9.82%	N/A

—Source: Dow Jones Market Data

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