Mesirow Financial

COVID-19 Market Volatility in Context

03.27.2020

Ingrained in Mesirow's culture is our connection to our community and our clients. As we go through these uncertain times, we hope you and your families are all healthy and safe. Below are our observations on the economic impact this pandemic is having. We plan to share these regular market updates as an effort to provide some clarity around this unclear time. Please feel free to contact us for anything else that we can help with.

Market Volatility in Context

Through Thursday this week, stock markets staged a significant rally, increasing approximately 15-20% from the recent lows at Monday's close. This rally was likely a response to both the $2 trillion relief bill approved by the Senate this week and the Federal Reserve Bank's commitment to support the lending markets. The bill, which includes financial support for individuals and families, small and larger businesses, non-profits, and even local governments, represents close to 10% of annual U.S. GDP. To put this in perspective, the relief package passed by Congress during the 2008-2009 financial crisis amounted to less than half of the current bill. We expect that this money will help ease some of the financial impact caused by the COVID-19 virus. The news flow in the coming weeks and months will likely continue to be a mix of tragic health and economic stories, along with episodes of the public and private sectors taking significant steps to combat the virus. In the near term, we have every expectation that volatility will continue to be heightened, resulting in big market swings both up and down on a day-to-day basis.

As is always the case in investing, an investor's long-term results will be significantly affected by their reaction to market volatility. We recognize that the economic impact from the spread of COVID-19 is very real, and the struggles some companies will face warrant lower stock prices. However, this doesn't apply to all businesses. An investment manager we work with recently described most companies as fitting broadly into one of three categories:

1. Some companies carry sizable debt loads and are caught in the crosshairs of the COVID-19 related slowdown. These firms will struggle the most.
2. The second group of companies will also see a short-term shock to profits, but they maintain healthy balance sheets that will help drive an ultimate recovery. Their strong balance sheets may also allow them to pick up assets and talented employees from companies that struggle to make it through.
3. The third category includes companies that aren't materially impacted by the slowdown, and in some cases, may benefit from new opportunities that arise.

With comfort that our clients are largely invested in businesses that will weather the current storm, we encourage investors to think about the recent volatility in the context of long-term business activity. The thought process of focusing on long-term business prospects rather than day-to-day price fluctuations was described so well in Warren Buffett's 2013 letter to Berkshire Hathaway shareholders.[1] In the letter, Buffett described his thoughts on market volatility relative to his personal investment in 400 acres of farmland in Nebraska:

> *"With my investment, I thought only of what the property would produce and cared not at all about the daily valuation…if a moody fellow with a farm bordering my property yelled out a price every day to me at which he would either buy my farm or sell me his – and those prices varied widely over short periods of time depending on his mental state – how in the world could I be other than benefited by his erratic behavior? If his daily shout-out was ridiculously low, and I had some spare cash, I would buy his farm. If the number he yelled was absurdly high, I could either sell to him or just go on farming.*
>
> *Owners of stocks, however, too often let the capricious and often irrational behavior of their fellow owners cause them to behave irrationally as well. Because there is so much chatter about markets, the economy, interest rates, price behavior of stocks, etc., some investors believe it is important to listen to pundits – and, worse yet, important to consider acting upon their comments.*

Those people who can sit quietly for decades when they own a farm or apartment house too often become frenetic when they are exposed to a stream of stock quotations and accompanying commentators delivering an implied message of "Don't just sit there, do something." For these investors, liquidity is transformed from the unqualified benefit it should be to a curse."

We encourage our clients to avoid the curse of the stock market's daily liquidity and prices and view investing in stocks as an opportunity to own partial interests in businesses that have the potential to thrive in the long run. At the end of the passage from the 2013 Berkshire Hathaway shareholder letter, Buffett added:

"…if I had owned 100% of a solid business with good long-term prospects, it would have been foolish for me to even consider dumping it. So why would I have sold my stocks that were small participations in wonderful businesses? True, any one of them might eventually disappoint, but as a group they were certain to do well. Could anyone really believe the earth was going to swallow up the incredible productive assets and unlimited human ingenuity existing in America?"

Please don't hesitate to contact us if you have any questions or concerns.

---

1 https://www.berkshirehathaway.com/letters/2013ltr.pdf

Past performance is not indicative of future results. The S&P 500 Index, often abbreviated as S&P 500, is an American stock exchange market index based on the market capitalizations of 500 large companies having common stock listed on the NYSE or NASDAQ. The S&P 500 index components and their weightings are determined by S&P Dow Jones Indices.