Portfolio Management during the Pandemic

May 2020

You might be reading this hunkered down in your basement, taking inventory of your supplies, or watching a DIY facemask tutorial on YouTube. If so, you're like all of us navigating a fog of uncertainty that, so far, has left more questions than answers. To help offer you some firmer footing, allow us to paint a realistic picture of where we stand regarding financial markets and the economy more broadly.

The first quarter of 2020 brought with it a global pandemic and the most precipitous market decline in history. The first 23 days of the period saw a market drop of 34%, much worse than we typically see. Many have contracted the virus, lost a job, or have had someone close to them fall into one or both groups. For better or for worse … that's all we can say with certainty. But we have reason to be optimistic about the future.

In a recent interview, Stanford Graduate School professor and former Whitehouse economic adviser Edward Lazear referred to the current economic decline as a "supply-based contraction." In other words, the economy is experiencing a downturn in large part because many businesses are having to dramatically alter or otherwise cease daily operations to suppress the spread of COVID-19. Economists believe that the CARES Act and steps from the Federal Reserve will go a long way to support small businesses and employees who would otherwise be working.

As a result, economic supply is being temporarily shut off in the short term. However, economists also believe this is creating pent-up consumer demand that will soak up new supply when the economy resumes somewhat normal operation. If we use history as our guide, World War II serves as a comparable example of a supply-based shock to the economy that was then followed by subsequent years of strong economic growth.

There is also reason for optimism regarding your portfolio. The extended relative underperformance of the small and value premiums might have caused anxiety and frustration, but our research shows that they could be poised for superior performance during the coming market recovery. The small-value premium underperformed by an average of 3.6% during some of the worst market drawdowns in history—6.1% after excluding fallout from the bursting tech bubble in 2002. However, the small-value premium went on to outperform the market during the subsequent recoveries by an average of 20.5%! Again, using history as our guide, it is not unreasonable to expect a similar outcome in the future.

The path forward to recovery remains uncertain, and future levels of market volatility will always be unknown. But our informed perspective on the future leaves plenty of room for optimism and positivity.

If you have any questions about your investments, need to inform us of family or work-related changes, or want to discuss your financial planning needs, please reach out. We are here to help you reach your financial life goals!

For more information, please contact Joseph Contino**,** Investment Advisor, Dopkins Wealth Management, LLC*, **at** jcontino@dopkins.com**.**

** Dopkins Wealth Management, LLC is a registered investment advisor owned by the partners of Dopkins & Company, LLP.*