Crash in world stock markets reflects coronavirus fears

DOLLARS AND SENSE
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THE media is saturated with commentary on the new coronavirus, and it would be prudent to say that I have no more information on the disease than anyone else.

As far as financial markets go we can use our best judgment and previous market disturbances to predict what might be a reasonable outcome in the longer term.

With pharmacies selling out of hand sanitiser and face masks coupled with the images on television and in newspapers of people hoarding food and toilet rolls, it might however, help to put some perspective around the situation.

The last two or three weeks have seen stock markets around the world decline as the impact from the novel coronavirus (Covid-19) is assessed by investors.

The main economic impact expected as a result of Covid-19 is the slow-down of industry in China and the supply chain disruption that will occur as a result of this.

This has impacted on demand for oil, which suffered a dramatic fall in price.

Locally exports to China will fall, and the travel and education industries will be impacted.

Uncertainties regarding the spread of the virus will reduce transactions in the economy generally.

By all reports the severity of coronavirus is related to age and each person's defences and it is clearly a serious matter to have come in contact with it.

It is obviously of great concern to sufferers and their families, however, following are some interesting statistics on its severity.

Globally the mortality rate for Covid-19 is around 3.3%. compared to a mortality rate for Severe Acute Respiratory Syndrome (SARS) of 10%, Middle East Respiratory Syndrome (MERS) at 35% and Ebola at 50%.

The total number of deaths from Covid-19 to this point is something more than 3000 worldwide, with the vast majority of those concentrated in Hubei province, where the outbreak originated.

To put this in perspective, according to the US Centre for Disease Control, during the current influenza season there have been 29 million cases of flu and 16,000 deaths as a result of the flu in the United States alone.

It would seem that the flu is more dangerous than Covid-19.

However, since the flu is with us every year it doesn't get the headlines that the coronavirus has managed to garner.

While we cannot predict exactly what will happen, we can use SARS as a reasonable road map.

SARS is believed to have originated from the Guangdong province in China.

It was first reported to the World Health Organisation in November 2002.

At that time the ASX 200 was trading at 3010 points.

The virus spread through most of Asia and parts of North America.

The ASX bottomed at 2700 on March 13, 2002. This represented a decline of 10% from pre-SARS levels.

In June 2003 the World Health Organisation declared that the world population should be SARS free within two or three weeks.

At that point in time the ASX 200 had recovered to the November 2002 level.

The recent sell-off began in earnest on February 21, 2020 and to the time of writing the ASX 200 has fallen from 7162 to about 5800, a fall of 19%.

This fall is bigger than for SARS, it being exacerbated by a corresponding collapse in oil prices.

The current market decline has also been extremely rapid. It reflects concerns long held in our business regarding the effects of algorithmic trading, exchange traded funds (both of which to varying degrees, mean stock is automatically bought or sold in response to market movements).

The penetration of online broking is also greater and the economic and political backdrop is very different.

In particular China has doubled as a share of global GDP and is much more integrated into global supply chains.

Here at the Investment Collective, when we build portfolios, we spend considerable time getting the asset mix correct for each client's risk profile.

We nearly always include a relatively high percentage of assets that are defensive in nature.

In general these have moved very little compared to the share market.

We don't invest in speculative companies but in real businesses that generate cash flow and profit.

Most portfolio income is derived from dividends and while the share price may go up or down, dividends are generally very stable and companies will continue to pay them.

Our investment committee met a few days ago and could not identify one investment in our portfolios that we do not expect to recover from the recent sell off given time.

Indeed as with SARS, and the Asian Credit Crisis of the later 1990s it seems to me like this is an opportunity to put a nice portfolio together, or to build on an existing one (that's not personal advice by the way, it's commentary – get advice if you don't know what you are doing).

Moving to matters of health, it seems too many people are focusing on the wrong things.

Presumably with the run on toilet paper, people think the matter of corona is serious - so why do people not cough or sneeze into their elbow?

> " IT SEEMS TO ME THAT SOME SORT OF BASIC WAGE MIGHT BE NECESSARY IN ORDER THAT PEOPLE DO STAY HOME.

Why would a doctor, feeling unwell, and having been overseas, see 70-odd patients? Why would a woman being tested for the virus go to a concert?

Frankly, this is the epitome of selfishness, and it undermines faith in our society vastly more than a crap-out on the market.

Over our combined offices, we have several staff with chronic health issues and some staff have close family who cannot afford to be exposed to serious illness.

We want to protect these people.

We also want to protect our clients, many of whom are elderly and/or have chronic health issue of their own.

That being the case, and given this is unexplored territory, we have instituted a plan such that staff are supported and the offices keep functioning.

We are insisting that anyone who is the slightest bit ill with common symptoms stay home.

We have granted an additional five days sick leave without a doctor's certificate, and more if required with one.

We have purchased additional laptop computers and had them configured such that people who are not too sick or who are recovering can work from home till they are truly well.

We have also firmly asked clients to reschedule if they are sick and we will send them home if they present unwell.

In the end, our primary duty is to clients, and that means assisting them to deal with volatile markets, and presumably not making them sick.

To do that we have to keep staff well.

The challenge will be for businesses that cannot earn income without direct client contact.

It seems to me that some sort of basic wage might be necessary in order that people do stay home.

CORONAVIRUS FEARS: The ASX dropped more than 7 per cent at opening of trade on Monday as concerns over Covid-19 grow. Picture: Brendon Thorne/Getty Images

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