Coronavirus Update

This past week has seen Coronavirus headlines proliferate faster than the Coronavirus itself.

No one knows how far this contagion will spread…and we don't mean to take lightly that it has already claimed some victims…but if it is anything like SARS, N1H1 (swine flu), or Ebola, there is a good chance it will be in our global rear view mirror someday soon-ish.

We hope.

If that is the case (and we believe that is the case), the recent 15% sell-off in the stock market and significant rally in the bond market has presented an opportunity to A.) lighten up one's exposure to bonds and B.) increase one's exposure to stocks.

What rally in bonds, you say? That's the wonderful thing about the media. Good news doesn't attract viewers as much as scary bad news does.

The bond market has been on an absolute tear!

As investors have been in their "coronavirus panic selling" mode, they have been pouring much of their proceeds into bonds, primarily U.S. Treasury bonds. But the media has not been talking about all the money investors are making in their bond portfolios.

Reminder: When interest rates go DOWN, bond prices go UP.

We have been saying for a couple of years that we expect interest rates to remain low and trend lower. Well, there's nothing like a pandemic scare to hurry that process along.

The 30-year Treasury bond has spent the last fifteen months slowly drifting from just over 3% down to 2%. So slowly it could have put you to sleep. Probably did.

But just in the last four days, it has plummeted from over 2% to 1.68%.

And today the 10-year Treasury bond has dropped to its lowest interest rate EVER…..in the history of the United State of America! 1.17%!!!

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When a stock market rally lasts eleven years, it becomes difficult to remember how cruel it can be. When it declined 55% in 2009, it took a couple of years for investors to forget the pain. After seven or eight years, one begins to wonder why anyone would have their money anywhere but the stock market. After eleven years (almost to the day), diversification has become a very long four-letter word.

And then there are times like these when diversification becomes the fifteen letter word it is supposed to be.

We don't know where the bottom is but we have begun to liquidate some of our bonds, taking profits and slowly picking up shares of stocks we feel have become cheap(er).

If stocks decline more and bonds rally more, we will be inclined to sell more bonds and add more to stocks.

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