

Coronavirus

Every few years (or so it seems) there is a major outbreak of some sort, which sends the media into a frenzy and makes the markets a little choppy. Within a few weeks, sometimes longer, it all blows over.

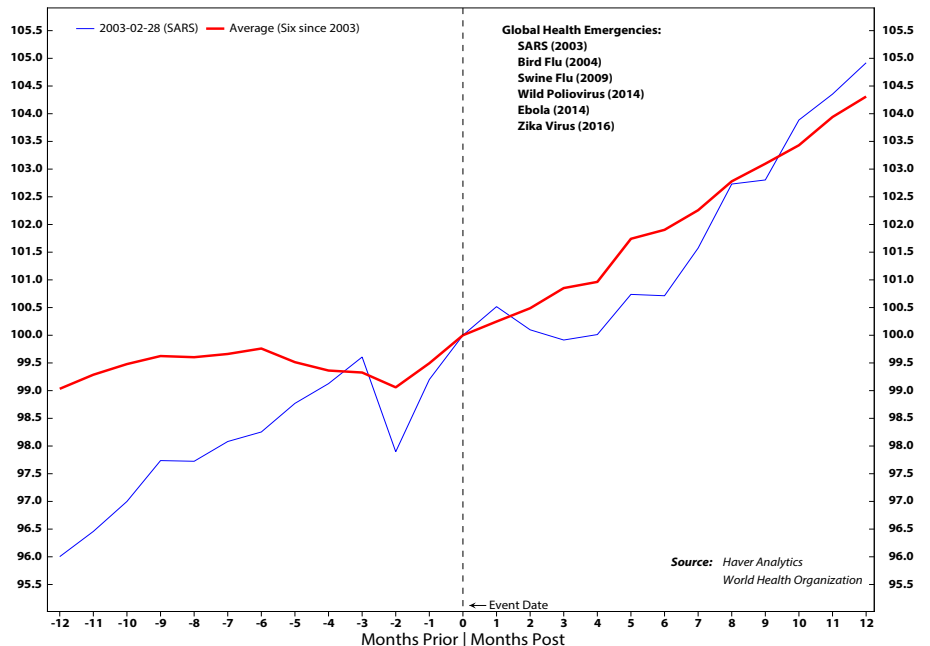
The Coronavirus, while it certainly packs a punch, will most certainly follow previous health crises and quickly become yesterday's news. Please don't get me wrong. I feel horrible for those that have been impacted by the Coronavirus, and I think that it is great that the Chinese government, WHO, and the CDC are doing everything in their power to contain the Coronavirus. It's the media portrayal of this outbreak that bothers me.

I've been called out by a few clients over the years for being too hard on the media. Before you try to call me out this time, read these statistics. According to the CDC, 42.9 million people got the influenza during the 2018-19 flu season. 647,000 were hospitalized and 61,200 people died. This was not an anomaly. During the 2017-18 flu season, 48.8 million people got sick, 959,000 people were hospitalized, and 79,400 people died. Did you know that over 12,000 people in the United States die every year from influenza and over 50,000 people in the United States die every year from pneumonia? At this point, according to the World Health Organization, the Coronavirus has killed approximately 170 people. Agree with me or not, but I personally feel that the media has blown this a bit out of proportion.

How Does this All Impact You and Your Investments?

Can the Coronavirus have an impact on the world economy and the stock market? Historically speaking, health emergencies have not had a material impact on the global economy. We looked at the previous six global health emergencies (the red line in the chart to the right). As you can see, global industrial production increased over the 12 months after the health care crisis.

Performance of Global Industrial Production Around Global Health Emergencies



Health Care Emergencies Impact on the Stock Market

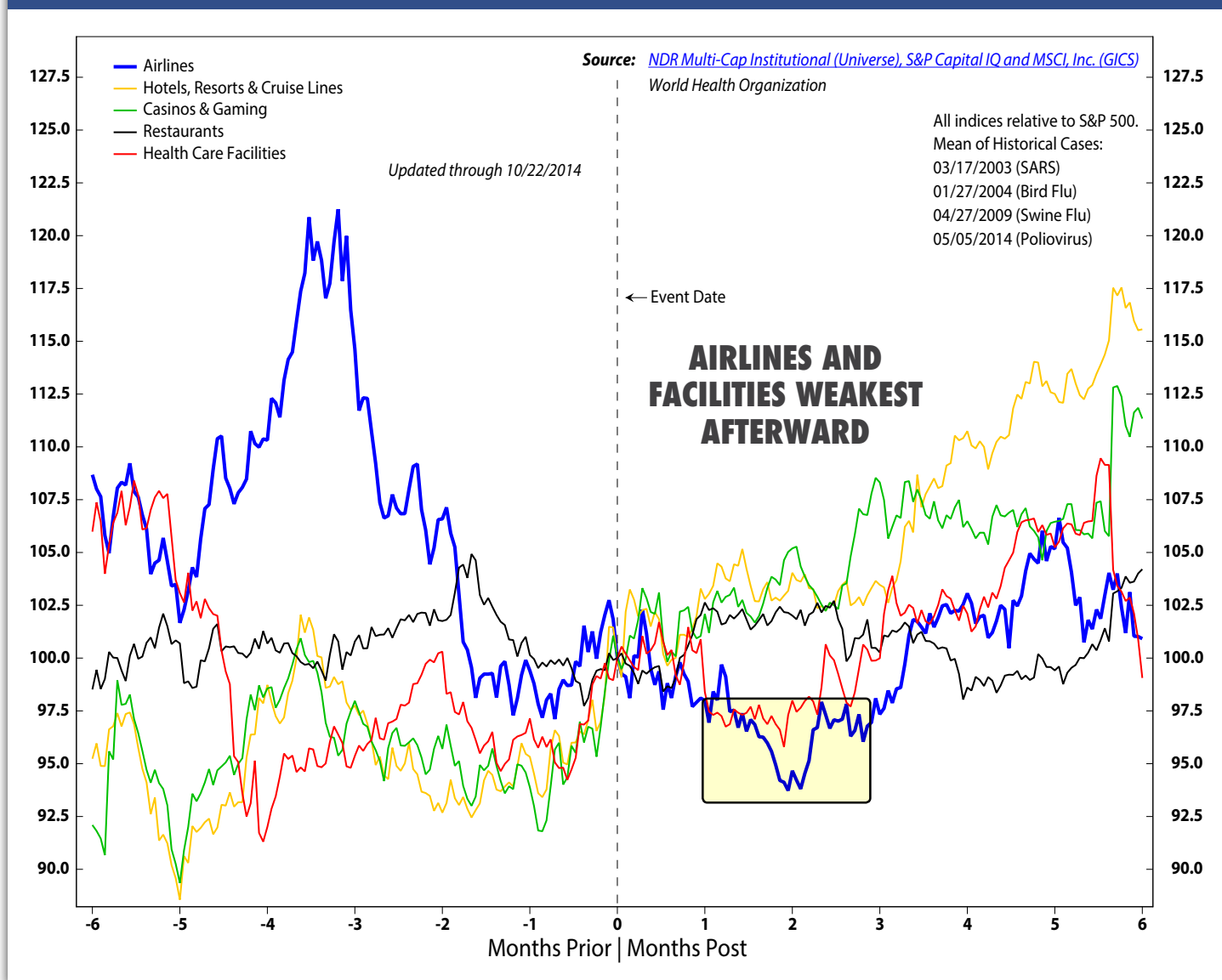
Historically, there is a “knee jerk” reaction to bad health crises, sending the markets down. The markets turned south on Friday, January 24th and Monday, January 27th as a direct result of the Coronavirus. They’ve been holding in the past few days. If we look at the Dow Jones Industrial Average (chart below), epidemics rarely impact the stock markets’ performance, when given a six-month to 12-month time horizon.

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

That doesn't mean that there aren't areas of the stock market that are more susceptible to downside risk than others. Airlines, restaurants, and other "public places" companies can be more at risk than other areas of the markets, as the general public avoids these areas for fear that they might get infected. As you can see from the chart below, we have looked at several areas of risk within the market. Airlines seem to be the sub-industry most at risk, but there are others.

Public Place Sub-Industries RS Around Global Health Emergencies



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The Polaris Perspective

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We Treat Every Situation Individually

While we don't think that the Coronavirus will amount to much more than headlines, we do evaluate all crisis situations individually. For example, one thing that concerns me about the Coronavirus is its long incubation period. An individual can carry the Coronavirus for more than two weeks without showing any symptoms that they are sick. A longer incubation period makes it harder to control the spread of the virus because the (so to be) patient doesn't even feel sick or know they are contagious, thus exposing the Coronavirus to friends, family, co-workers, and the general public.

We do have some exposure to "public space" companies. We will be evaluating these companies closely to determine if we need to remove our exposure. We are also constantly evaluating if we should get generally more defensive in your portfolio. Should the need arise, we will take aggressive action to protect your portfolio.

As always, I welcome your questions and comments.



Sincerely,

Jeffrey J. Powell

Managing Partner & Chief Investment Officer