Allegheny Financial Group · Allegheny Investments

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Dear Valued Client:

In the short-term, it is difficult to predict the movement of stock prices. Much of what drives stock prices on a day-to-day basis is the emotional response to uncertainty. For example, last week prices were driven by the fear that the Coronavirus (Covid-19) will generate a substantial enough disruption to the markets to cause a recession—more on this in a moment. However, before Covid-19, it was the hopeful presidential candidates' rhetoric and proposed policies that were creating uncertainty in the markets. Before that, it was concern that an impasse in trade negotiations between China and the U.S. would send us into a recession. And in the future, it will be some other unforeseen development that makes investors fearful. We expect this always to be the case, which is why having a target portfolio allocation is essential. It gives us the framework to avoid emotional decisions and provides us with the confidence that we can meet both your expected cash needs as well as the long-term growth objectives of your portfolio. It's worth mentioning that the bond market has not only held up well in this volatility but has appreciated as nervous investors seek safety. Holding bonds in your portfolio allow us to continue to distribute cash from portfolios receiving distributions without the need to sell stocks at reduced prices. These bonds also will enable us to raise cash to buy equities at lower prices.

This has been an especially tumultuous week in the markets. The longest bull market in U.S. history has officially ended with stock indices now 20%+ off recent highs. Unprecedented volatility highlights the market's fear, which is primarily being driven by uncertainty surrounding Covid-19. Conferences are postponed, businesses are emphasizing working from home, sporting events are on hold, flights are canceled, and schools are closed. These are disruptions that will, at the very least, have an impact on specific business sectors. For example, businesses related to travel are taking the biggest hit. Airlines, cruises, and hotels will undoubtedly be affected by less travel. Restaurants and movie theaters will see less business as people avoid unnecessary public places.

But on the other hand, companies that provide streaming services, online video games, and food delivery services may benefit from people opting to stay in more. And, medical companies that may be able to provide innovations or solutions could benefit from these developments. It is much too soon to know the real economic effects. It will be in the coming months and quarters as economic data is released that we will better understand the impact.

Volatile markets like these are uncomfortable for every investor. While it is much too soon to tell the severity of Covid-19, the truth is— we will get through it. Over our investing lives, we will go through many bull and bear markets, stoking powerful emotions of fear and euphoria that propel us to make poor investing decisions. It is the investors who embrace the inevitability of these difficult moments and who rely on an investment policy to make rational decisions during emotional periods who are the most successful over time.

Sincerely,

Jack D. Kraus, CFA
Chief Investment Officer