

Additional Newsletter | March 22, 2020

Update on the State of the World

Dear Clients,

During these extraordinary times, we hope that all of you and your families are healthy and safe. Over the past several weeks, it feels for many of us like the future is much less predictable than we are accustomed to. But one thing that is predictable: the diligent work of my White Lighthouse colleagues, who continue to provide the responsiveness that you appreciate. We remain fully operational and encourage you to contact us with questions big or small. We will do everything we can to help you make good choices.

We have spoken or e-mailed with many of you in the past several weeks. While the current public health crisis and its impact on the economy and financial markets has been on everyone's mind, we can report that most of our clients, friends and family are staying calm in the face of uncertainty and a dramatic short-term change in lifestyle. Many of you have asked what I think about this rapidly evolving situation. You know from my past writings that I have been reluctant to predict the future, especially the timing of events. But today, I'm going to break with that tradition, at least partially. I'd like to share a many of the thoughts and ideas I've shared with several of you already.

First things first. I hesitate to use any statistics here since so much of the data at this point is very likely to be wrong or misleading. Humans, even very intelligent ones, are notoriously bad at judging probabilities and statistics especially when emotions come into play. Most media outlets are selling advertising, so the numbers, even when true, are designed to get a reaction, and may well be misleading. Extrapolations of numbers, much like the hockey stick effect of many multi-year business plans, can lead to alarming conclusions, which an ever-voracious media is all too ready to report. Please take any numbers I use or quote here with the requisite grain of salt.

COVID-19's emergence is a Darwinian event, for individuals, companies and politicians. Some of the sick/weak and unlucky will not survive. Many will survive, adapting with the help of medical/government and other assistance. Others will thrive in the post COVID-19 landscape. In the business world, strong firms and economies will get stronger, for example, US companies, the dollar, global tech companies and other strong non-US companies and economies. This will accelerate change and will not be particularly good for the already struggling parts of the world.

While the COVID-19 virus's impact is a global event, government reactions are "anti-Darwinian." Diseases have been with humans since the beginning of humanity and have helped to make the human body and human species much more adept at fighting a variety of threats. Government action is aiming to counter some of those impacts. COVID-19 is just the latest known virus to impact humans, though it has some characteristics which make it particularly fast spreading. COVID-19 for most people causes a fever, tiredness, a dry cough and a few other cold-like symptoms. In the more serious cases, breathing difficulty ensues. For people with underlying health issues like high blood pressure, heart problems and diabetes, the virus can be fatal. If you're looking for reliable information about the virus, here are a few excellent sources: the World Health Organization ([WHO](#)), Center for Disease Control ([CDC](#)), British Broadcasting Corporation ([BBC](#)), [Johns Hopkins](#), [Worldometers](#) and many more sources.

One of the biggest problems with COVID-19 is what is unknown to medical professionals and its potential to cause panic. The virus is relatively scary to scientists, health professionals, politicians and the general population because it is new. Fear of unknown and unpredictable events tends to be much higher than just bad news alone. In the early days of the disease, the stated mortality rates, especially when extrapolated over large populations, were downright scary. The biggest problem with these numbers is not the measure of confirmed cases and deaths, both relatively easy to measure, but the number of people who had the virus, but were never tested. It appears that many people had the virus without knowing and without confirmation testing. Nevertheless, talk of a high mortality rate sparks the fear of what happens if health systems around the world get overrun, people panic, and massive social unrest ensues.

To get an accurate estimate of the mortality rate over a given population, we need to know approximately how many people, at any given time, have had the disease and how many people have recovered or died. So far, the reported mortality rate, thankfully, keeps coming down from the original projections in the press. It has become clear that underlying health issues and increased age are highly correlated with mortality. In the last few days, Bloomberg and others have reported that in Italy the average age of people dying from COVID-19 was about 80 years old and about 99% of people who died had between 1 and 3 unrelated health issues. COVID-19 clearly can cause serious illness or death for any age; it is, however, also clear that the risks are much higher for people who are older and less healthy. [NPR](#) reported a couple of days ago that COVID-19 has a mortality rate of about 1%. A rather influential [study](#) out of Imperial College had a worst case scenario that seemed to cause many people in the US government and elsewhere to “freak out.” This on balance was probably a good thing as the US response to the health crisis in the early days has been wanting.

The world currently has a population of about 7.8 Billion with an annual death rate of about .70% (about 55 million people per year or 150,000 per day). Some of the media have been quick to extrapolate that if the entire world was infected and the mortality rate was as high as some of the on-line and early reports, a big number that, at this stage, is not only highly unlikely but it's also not helpful. More helpful are the concrete measures governments are taking to slow the spread.

Over the past weeks and months, many governments around the world have implemented severe and restrictive “social distancing” measures in order to “[flatten the curve.](#)” Travel and movement of people, the main way viruses spread, have been restricted to slow (not stop) the virus spreading and thereby prevent a surge of sick patients from overwhelming health care systems. These extreme social measures have come at an extremely large economic and social cost. This will hopefully only last so long, 6-10 weeks perhaps, after which time pressure to return to normal will mount. During this time, we can hope that some treatments are found, and the time was used wisely. Extreme social measures will also cost lives, but in different less obvious ways.

The next several weeks will be uncomfortable for many of us as well as business and government leaders. For those who are not fighting a health condition, there will be lots of uncertainty and adaptation of the new but temporary way of living, mostly in that life will slow down as we are asked to stay at home as much as possible. Many of us will be scouring news sources and social media for some sign that there is a medical breakthrough in between the inevitable headlines of mounting positive tests, deaths, job losses and the like.

While the current social distancing measures are still ramping up, we already know that countless teams of medical professionals are working on all manners of preparedness from caring for the sick, preparing for the surge of patients, testing treatments, working on vaccines and much more. For those of you who would like a shot of “good news” already during this period, [this article](#) is making the rounds. Here is another positive [article](#) from the BBC reporting from China, where they are several weeks ahead of most of the rest of the world...people are starting to go outside again. These won't be the last signs of good news. Share all the good news that you can find, along with comedy, this will help everyone to cope.

Health First!

If you or someone you live with (or visit frequently) is in a high-risk group based on your age and underlying health conditions, follow the recommended safety precautions. Isolate yourself as much as possible from other people until there appears to be a degree of medical stability. Stay where you are and get help, as needed, for the delivery of food, medicine and other supplies. Now's the time to tackle all those projects you have been wanting to finish at home or on the computer, on-line courses you wanted to take, books you wanted to write, friends you wanted to reach out to.

If you're stuck at home, set up routines for our “new normal.” This should include not only work for your job and around the house but also establishing new [physical](#) and [mental health](#) routines. This period is stressful, for everyone, there is no denying that, but we are well equipped to adapt. Once you feel that you have your physical and mental health routines under control, what else should you consider? As we often advise, don't spend too much time watching and/or reading the news, engaging in COVID-19 discussions on-line and adding to the overall sense of worry. For most of us, our basic needs of food water, shelter and the like are easily being taken care of, most of us who are working will not lose their jobs and even if we do, or we have a big decrease in income for several months, we have the capacity to thrive and survive as the effects of the economic slowdown subside.

For those of you who have been leading very hectic lives, traveling a lot, never with enough time to be at home and a long list of things you would like to do, but never had the time; well the time has now been delivered to you. Use this gift of time to check in on friends and family and find other nice things that you can do from home for other people who may be impacted more than you are. Being kind and positive during these times will be good for you and help others.

Looking forward – Short term and longer term

Governments are essentially asking their populations [especially the younger and healthier ones] to bear a considerable amount of short-term financial pain and restriction of movement. They are asking the same of many business owners and their employees. This keeps health systems from getting overwhelmed and reduces the odds of an earlier death for mostly older and less healthy individuals. 3

In exchange, the governments will take on a considerable amount of additional debt to help many of the affected individuals and companies. Governments, through their central banks as well as their legislatures, will be busy doing everything they can in order to avoid too much financial pain and to keep as far away as possible from a financial panic.

However, there will be losses and disruption in addition to the loss of life and health that many will experience. Some companies, big and small, will go bankrupt. Some people will lose their jobs or change jobs and never return to their previous lives. While there is a lot of concern on job losses, especially for people working in lower-paid service jobs, there is some positive news on hiring. A few companies have announced large hiring increases in the past couple of weeks: Walmart (150,000), Amazon (100,000), Dollar Tree (25,000), Dominoes (10,000), and Walgreens (9500). While these employers will not absorb all the job losses, combined with government assistance, the economies and people that are most adaptive to change will make it through with relatively little long-term damage.

Employers and employees, at large and small companies, will face heightened uncertainty. Amongst the relative chaos will be plenty of opportunities as well to build towards the future. What is going on today is not how life will be in the future, this is temporary and where possible, it would be best to avoid making long term strategic choices, focus on getting through a day or a week at a time.

In the short-term, I think this current phase of extreme “lock down”, is only that, a phase. At a certain point, the curve will have flattened, a lot of people will have been saved, health systems will have started to adapt, and a lot of economic damage will have been done. Government officials will have to strongly consider letting people start to return, at least gradually, to some sense of a normal life. This will not be an immediate return to life like it was before. It is likely to include stronger restrictions/recommendations for people who are most vulnerable while allowing younger and healthier people to start to get back to work. Schools will perhaps be out until the fall, as many universities have already made that choice.

In the medium term, I envision travel restrictions, especially internationally. Travelers will be subject to tests that show that they have antibodies from having recovered from COVID-19 or don't currently have the disease. Travelers may have to have a test upon entry into different countries and find themselves possibly sent into quarantine. For those people with multiple nationalities, they may find value in not being denied entry upon travel, at least in the short term.

Longer term, a year or two from now, COVID-19 itself will become just one of those regular things that the world must deal with like the flu, the common cold and other familiar illnesses. Vaccines will have been made and perhaps eventually combined with the annual flu vaccine that many people have. However, the impacts of this period will have much longer-term impacts on people, companies and governments, which should lead to the next economic boom.

The combination of massive government stimulus, very low interest rates and many business owners wanting to be prepared for the next virus to hit will be fertile grounds for economic expansion. I envision the equivalence of post-war spending that should propel economic growth at a higher rate than we have seen in a long time. Manufacturing companies will look to diversify supply chains into multiple different countries, firms of all types will adapt new technologies to be better prepared for 4

remote work and services. Individuals will continue to adapt new technologies and search out new skills. This will likely be one of the most transformative periods for new technology adoption that the world has seen.

Many businesses in travel, leisure, energy, retail and other impacted sectors will disappear and be replaced by new business owners and new investors and these new companies will hire a lot of people. The seeds are likely being planted today for an inflationary period within a few years' time. This is the economic cycle at work, better days will return.

Impacts on the Financial Markets

While I cannot say with 100% certainty, I don't think the world's reaction to the Coronavirus will result in something worse than a sharp but relatively short recession. We are in uncharted waters in terms of the health aspects government and public response; but this is nowhere near the first time the financial markets have reacted to a high degree of uncertainty. Financial markets responses to major events in the past do give us some guidance. Let's take a look:

- Bad news will still be coming out when the markets bottom-out and start to rise again...almost certainly.
- This event is putting Darwinian effects into overdrive for people and businesses. Governments, people and businesses will fight to adapt. Creativity will be unleashed.
- The banking system, and a variety of financial markets have so far functioned in a very orderly fashion. I think it is better that the financial crises of a decade ago happened first as the tools and the system are more robust than a decade ago and are helping to keep some stability in this time of volatility.
- Governments are asking a lot of their people in terms of loss of freedom of movement and for many the loss of some or all their income. These dramatic measures are bringing the economy to a big slowdown in order to keep health systems from being overloaded with mostly older/sicker people and lessening the number whose death will be accelerated. Whether the medicine is worse than the cure won't be known until after the fact.
- Governments will take on a lot of debt and pay out a lot of cash to try to stabilize the economic effects. In the US we may even see Republicans and Democrats learn how to work together again, at least for a little while. I think government officials will be forced to allow the economy to start up again well before any vaccine is available
- The strong will become stronger. I'm thinking here about companies, and the future of the US economy. The dollar has been strengthening and many of the leading American companies, especially in technology, should lead the recovery. Asian governments seem to have fared well so far, South Korea and China especially, in their preparedness and responsiveness. Europe will struggle the most I think at least in the West; poorer countries will also struggle to

deal with the impacts of the virus while wealthier countries are busy dealing with their own populations.

- The knock-on effects will be studied for years by scientists of all types...it will speed the adaptation of technology in many companies, it will speed the demise of many companies what were unlucky or unprepared, though many will be saved by government help.
- Media is hard to avoid, and it is very difficult to filter reliable information from nonsense and sensationalism even or especially from the big-name media companies. This is frustrating. With more “certainty” we will see more stability in financial markets, public opinion, etc. Bad news is far easier to deal with in most cases than uncertainty and as this crisis starts to resolve, the healing and adaptation will begin.
- I think there will be a tremendous boom in economic activity as the aftermath of this Corona virus crisis are woven into the social fabric:
 - Companies of all types will want to diversify supply chains
 - Companies will speed moves to flexibly switch between on-line and in person business
 - Governments and companies will hopefully want to increase preparedness and spending for when a virus like this could be much worse...same mortality rate but impacting younger and healthier people would already be much worse.... You will never have to worry about being employable for the rest of your life! Make this more coherent
 - Some industries/companies/investors will be wiped out in the hardest hit industries, but others will rise up to fill their place (restaurants, travel companies retail shops) ...a lot of small energy companies may go bankrupt in the US but bigger companies will buy up their assets, oil will stay relatively inexpensive for a long time.

Our Investment Strategy – Consistency in a time of Volatility

How should we react then when it comes to our investment portfolios? Generally speaking, we have often told our clients a number of things:

- Be prepared for a 25% drop in your portfolio value; this happens on average about once every 3-5 years.
- Only ask us to manage money and only invest in the stock market with money you don't need over the short term.
- Have an emergency reserve account. If you lost or are losing your job or a lot of income due to government actions, now would be the time to consider using your reserves; though government aid should be tapped first if you qualify.
- We will ensure you have a well-diversified portfolio
- We don't make timing the markets a central theme in buy and sell decisions

Trying to trade and re-balance in stock markets that are moving up and down by 4-10% per day is generally not recommended. Many of you have asked us to invest some more cash in the past couple of weeks and a few people have asked for some sales to raise some cash. As markets start to calm down, we expect to be reviewing your portfolios for re-balancing, tax loss harvesting and a general assessment of the state of the world, using the same philosophies that have guided us in the past. Personally, I have not sold anything in my investment accounts since the last peak as I, like most of you, have a long-term investment horizon.

I came across this [video](#) by a behavioural economics professor which I found to be well done; though many of you will know the message intuitively.

How are we and how can we help you?

The White Lighthouse team remains fully operational, working from our various homes and offices. We and our families are all healthy. I am still in Switzerland having had slight cold symptoms for over a week (no fever, no dry cough) and waiting for complete health before I decide when to return to the US. My family, kids out of school, are all safe and at home with their mother, preparing for their classes to move on-line...meanwhile making the most of technology and a fast internet connection and thankfully I am talking with them every day!

Serving you, keeping busy with our work and helping to answer your questions are all very important to us during these challenging times. While this past month has been much busier than normal at White Lighthouse. Current world events aside, we have also had 3 audits in March, 2 regular ones in Switzerland were completed with no issues and the third is our first periodic SEC audit which is progressing well.

Please reach out to anyone on our team with questions big or small and as always, we will be here to listen and to help you with our advice.

Our very best wishes, please stay healthy, and we look forward to seeing many of you again in person after life starts to return to normal!

Jonathan and the White Lighthouse Team

P.S. Our regular Newsletter will come out as scheduled for the first of April, and we will include this advance article either in its current form or with any notable updates.

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