Herd Mentality and Herd Immunity

Security National Bank's Investment team understands that the extent of the downdraft in equity prices was surprising. We had modeled an 18% to 20% decline over two months with a bottom around the end of April. As of the close of the market today, Friday the 13th, the S&P 500 is down 20% from its recent high but recovery from yesterday’s 28% cumulative decline.

We don’t know how much further prices will fall, but it feels like we are closer to the bottom. Stocks rebounded sharply today after President Trump’s address to the nation.

During the last phases of a bear market, the selloff is indiscriminate with most asset classes declining in unison. Yesterday’s 9.5% drop in the S&P 500 felt that way. This is a classic example of herd mentality, with signs of real panic in the market yesterday. Don’t let emotions cloud your judgement. We advise a disciplined investment approach, and sometimes this can be uncomfortable. Friday’s 9% snap back shows the difficulty of market timing.

Potential Surplus Package

We are hearted by news that Congress and the Trump Administration may agree to stimulus. We would like to see a $1 trillion package, equating to 5% of the U.S. GDP. The bulk of the aid package should be concentrated to assist workers earning less than $40,000 per year. Workers in the travel and entertainment sectors are going to be hit hard and need assistance. Aid should also boost the healthcare system and help small and mid-sized businesses hurt by the virus-related shutdowns. Now is not time to quibble about the deficit.

Strong U.S. Economy

The U.S. economy entered this crisis in a position of strength. The February U.S. jobs creation report showed an average of 243,000 jobs per month in the last three months. Personal income was up 4% year over year. Household balance sheets are in great shape. The manufacturing sector was recovering and the service sector strengthening. The housing sector was booming. Economic growth was running at a 2% pace. The virus-related shutdowns will likely hit the economy by 4% in the second quarter. We look for stimulus measures to cut this impact in half.

For those people living off their investments such as retirees, we advise keeping nine to 12 months’ worth of known needs in cash. We do not put our clients at risk of having to sell equities during a downturn. Currently our accounts have a higher than normal level of cash.

We do not try to “time” the market but will be selectively adding some to our portfolios the stocks of companies we have long admired. These are great companies that traded at a premium just a couple of weeks ago.

Committed to the Well-Being of Customers and Employees

As our communities work to combat the spread of the Coronavirus (COVID-19), we want to make sure you know that the well-being of our customers and employees has always been a top priority for us.
Furthermore, we want you to feel confident that we are committed to acting responsibly. Over the past week, we have increased the frequency of cleanings at our locations, ensured our employees have current information and continue to provide convenient hand sanitizers for customers and employees.

As much as we enjoy seeing you in person, we know at this time you may prefer to minimize your daily interactions. We understand, and want to remind you there are many ways we can serve you. And if you do stop by, don’t be surprised if we greet you with a simple wave instead of a normal handshake to avoid the spread of germs.

Please do not hesitate to contact us at any time to discuss your portfolio. We are always available to meet, even if via phone or web conference.

Thank you,

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