



COVE CAPITAL  
MANAGEMENT

## Cove Views

February 27, 2020

Dear Client,

As of this writing, the stock market has fallen about 10% over the last 6 days, at which time it was at an all time high. As everyone knows, the coronavirus is making investors jittery. We believe, prior to this most recent nervousness, the stock market had been overbought and we were due some unpleasantness at some point. So, the question of the day is, how bad will the coronavirus outbreak become and that, of course, will influence stock prices in the near term.

We also know that we have seen many of these viruses come and go over the years (think: Ebola, SARS, MERS etc.) and so we expect when this is over, and it will be over at some point, markets will stabilize and people's fears will abate. Of course, we don't know just how bad it's going to get and how much fear will increase as the virus spreads. And so, we would remind people that an investor/saver should have a long-term time horizon which should be measured in years.

We believe the direction of short-term stock price gyrations are impossible to predict.

So how should one approach a situation like this? We have approached it as follows: for the last 6-9 months, we have viewed the stock market as overbought and so have kept equity allocations in client accounts somewhat lower than we ordinarily do. We understand that there is potential for continued weakness, perhaps even dramatic weakness. And so, we have reduced equity holdings more over the last week or so, especially in industries we believe could be overly sensitive to the continued coronavirus outbreak.

Primarily, we consider travel and leisure to be most the sensitive sectors and, as such, we have trimmed equity exposure to cruise ship companies, lodging companies and high yield bond ETFs. Another way we are attempting to reduce volatility is by placing a greater emphasis on dividend paying stocks. Dividend paying stocks typically tend to be less volatile. Interest rates have fallen and will fall further if equity prices continue to weaken, so we expect them to hold up better if the virus/economy worsens. Where appropriate, we also use options to reduce volatility.

Again, we believe if you own stocks, you need to own them with a long-term time horizon; and we expect the actions we have taken will give clients the fortitude to see additional equity market unpleasantness through.

As always, if your risk tolerance has changed from our last conversation, please feel free to reach out to us to make sure we are on the same page.

Best regards as always,

Dave Goldenberg

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