

## Gerry's Journal

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### **Once the Three-Legged Stool is Firmly in Place, We Will Collectively Feel Better**

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As anyone who has ever needed assistance to get that out of reach item off the top shelf knows, it is unquestionable that a stable stool requires three strong legs. Our economy will once again find stability and equilibrium so long as our leaders put in place the three policy legs described in this Journal. Through a combination of monetary, fiscal, and public policies, we will get through this together.

On Wednesday, March 18, Coronavirus (aka COVID-19) infections reached in excess of 200,000 known cases globally with more than 6,400 cases reported in the United States. First the bad news . . . this will get worse before it gets better. The rate of infection will continue to increase until such time as steps such as “social distancing,” voluntary and government mandated closures, and the banning of large gatherings begins to have an impact on slowing the spread of COVID-19. The numbers that we see today are a result of what we were doing (or not doing) two weeks ago. The good news is that we will get through this. In the immortal words of Winston Churchill, “You can always count on the Americans to do the right thing after they’ve tried everything else.” Even if our leadership sometimes falls short, we as individuals must always be diligent in our efforts to combat the spread of the virus. We are resilient and will get through this difficult chapter together.

#### **Monetary Policy – *the first leg***

The first leg of the stool is the need for the Federal Reserve to institute significantly accommodative monetary policies and take proactive and at times, creative measures to maintain the orderly operation of credit markets. Good news – they already have! The Federal Reserve recognized the potential impact on future growth and responded on March 3, 2020 with an intra-meeting 50 basis point cut to the Federal Funds rate. This was done despite the data available at that time which pointed to relatively strong U.S. economic fundamentals. On March 15<sup>th</sup> the Fed decided to further lower the target range for the federal funds rate to 0.00%-0.25%. In its FOMC statement, the Fed indicated that it “expects to maintain this target range until it is confident that the economy has weathered recent events and is on track to achieve its maximum employment and price stability goals.<sup>1</sup> Since that time, the Fed has announced several other<sup>2</sup> including but not limited to the following:

- 3/18/2020 - Federal Reserve Board establishes a Money Market Mutual Fund Liquidity Facility (MMLF) broadening a program to support the flow of credit to households and businesses.
- 3/17/2020 - Federal Reserve Board establishes a Primary Dealer Credit Facility (PDCF) to support the credit needs of households and businesses.
- 3/17/2020 - Federal Reserve Board establishes a Commercial Paper Funding Facility (CPFF) to support the flow of credit to households and businesses.
- 3/17/2020 - Federal banking agencies provide banks additional flexibility to support households and businesses

<sup>1</sup> [www.federalreserve.gov/newsevents/pressreleases/monetary20200315a.htm](http://www.federalreserve.gov/newsevents/pressreleases/monetary20200315a.htm)

<sup>2</sup> [www.federalreserve.gov/newsevents/pressreleases.htm](http://www.federalreserve.gov/newsevents/pressreleases.htm)

The Federal Reserve has and will continue to use its broad authority to backstop and support market functions during the pandemic. The Federal Reserve is doing its part, and we can comfortably say that this leg of the three-legged stool is in place.

### **Fiscal Policy – *the second leg***

The next leg that we need to see is a robust fiscal stimulus package from our elected leaders in Washington. For the first time in a number of years, we have seen lawmakers from both sides of the aisle in Washington working together with the White House on initiatives that will provide relief to those urgently in need of support and who have been most impacted by the virus. The first piece of legislation passed by the house on March 6, 2020, approved \$8.3 billion in emergency spending to combat the Coronavirus pandemic. It approved roughly a \$8.3 billion emergency spending package for combating the Coronavirus outbreak. “The bill provides more than \$3 billion for developing treatments for the virus and allocates \$2.2 billion for the Centers for Disease Control and Prevention to contain the outbreak, among other measures.<sup>3</sup> Since that time we have seen various initiatives put forth by the White House such as a payroll tax cut which have not yet gotten the traction necessary. Not all ideas have gained traction. Putting aside partisan tactics, there were legitimate reservations raised. There were bipartisan concerns in connection with the proposed payroll tax cut, especially the fact that it would not help the millions of Americans that were anticipated to lose their jobs. Earlier this week, the president signed into law a paid leave bill which the Senate had just passed. As of this writing, seeing that this payroll tax cut initiative was not going to get the support it needed, as of March 18<sup>th</sup> Senate lawmakers are now focused on an alternative – the Trump administration’s proposal for a \$1 trillion fiscal stimulus package, including aid for airlines and direct payments to American households.

While it is beyond the scope of this journal to delve into whether the direct payments to Americans contemplated by the Trump administration’s proposal is the most effective way to stimulate our economy, what I will say is that there would be a number of benefits. First, for people losing their jobs, putting cash in their pockets can help them get through this incredibly difficult period. Second, we know that most of those dollars would be immediately pumped back into the economy, helping to partially offset the contraction that is likely already occurring. This combined with targeted relief for certain particularly hard-hit industries, will go a long way towards shoring up our economy during this difficult period. While it is true that it will add to our cumulative national debt, the risk of not doing some sort of massive relief/stimulus package far outweighs the negatives associated with the near-term increase in debt. It is not a question of whether the money needs to be spent, and in the long run a massive fiscal package will be far less costly in terms of both dollars and quality of life than the alternative.

While still a work in progress, the President and lawmakers on Capitol Hill appear committed to providing the massive fiscal stimulus that will be necessary to combat the inevitable economic stress caused by the pandemic.

<sup>3</sup> [www.wsj.com/articles/congress-reaches-8-billion-deal-to-combat-coronavirus-11583343193?mod=article\\_inline&mod=article\\_inline](https://www.wsj.com/articles/congress-reaches-8-billion-deal-to-combat-coronavirus-11583343193?mod=article_inline&mod=article_inline)

**Public Policy - *the third leg***

The third leg of the stool is the “Flattening the of Health Curve” which refers to community isolation measures designed to keep the number of disease cases at a manageable level for healthcare providers. While the federal government, through the Center for Disease Control and other agencies have been working with state and local partners to combat the spread, in my humble opinion, more needs to be done.

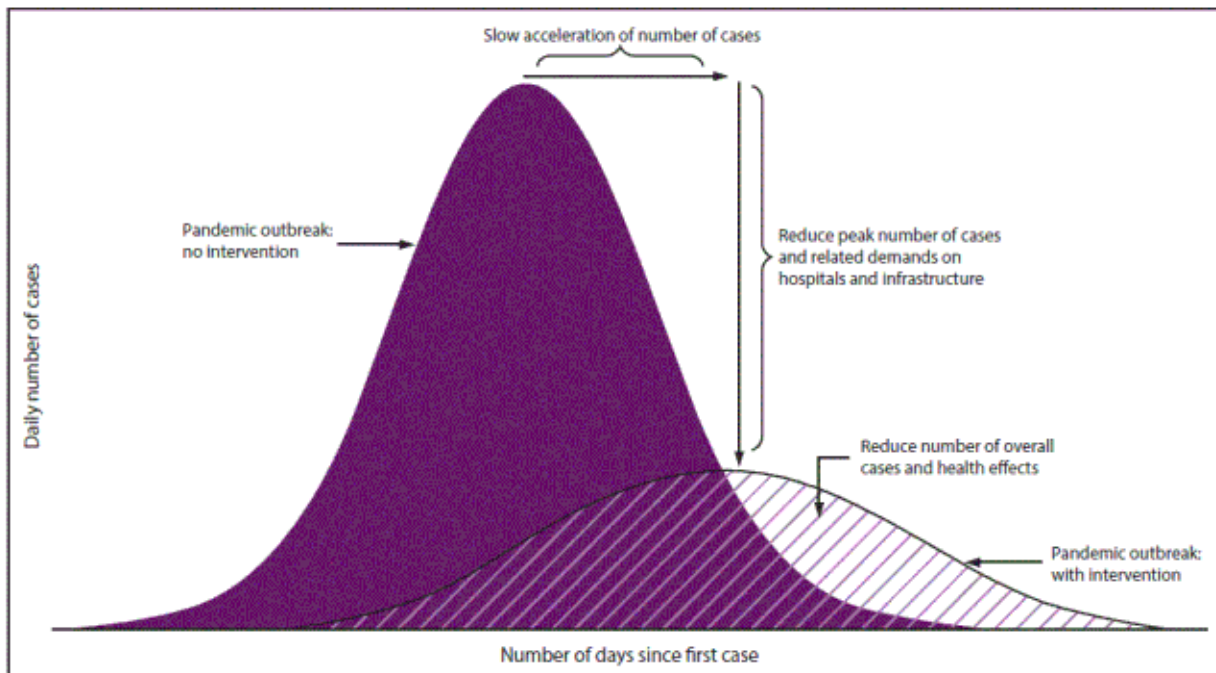


Image from [www.CDC.gov](http://www.CDC.gov)

There are many everyday benefits of living in a free society that most of us take for granted. As Americans, the freedoms of movement and of assembly are rights embedded into our notion of who we are and how we live our lives every day. We should not willingly forfeit these rights nor is anything in this journal a suggestion to the contrary. However, as individuals, we need to do whatever we reasonably can to slow the spread of the virus. At both the regional and national level, we as a nation are faced with the urgent question of to what degree we are willing to temporarily restrict our freedom of movement and assembly, and live with the associated economic stress necessary to slow the spread of COVID-19 virus.

**What should you be (*or not be*) doing?**

1. **Don't panic!** If we thought it would help your portfolios or your well-being, we would tell you to panic as much as you prefer. In moments like this, you need to embrace what you can control and accept what you can't. It is important to remember during turbulent times, that ALL Bear markets have one thing in common -- they end! In the meantime, the target allocations for your portfolios have been tailored to your long-term objectives. If you have any questions about that target allocation, please contact us and we can review to confirm that it continues to be appropriate for your risk

tolerance and time horizon. This is not to say that we believe we are at the bottom.; it is likely we are not. What it is to say is that we will get through this with the diligence, perseverance, and calm we have always shown in times of crisis.

2. **Turn off the news.** While there are examples of sensible reporting, the media has been and continues to follow the adage: “if it bleeds, it leads.” Although the current situation is extremely serious, a steady diet of 24/7 news coverage through which one is inundated with one disturbing statistic after another, is ill-advised. Issue yourself some time-tested parental advice and limit yourself to no more than one hour per day of news/media coverage of the COVID-19 pandemic (and that includes the internet and smartphones). Take advantage of the CDC.gov and WHO.int websites for the latest safety advice to keep yourselves, your families, and society at large healthy.
3. **Do your part to Flatten the Health Curve!** Social distancing and avoiding all non-essential in person interaction *is critical now* to slowing the rate of viral infection. As viral videos of Italians voicing “if I knew what I know now 10 days ago” can attest, if you wait to act you are late to act. Although it may be temporarily inconvenient, isolating and stressful, it is a small price to pay to give our healthcare system more time to take care for the most vulnerable among us.

As always, we are here for you. Please let us know if you have any questions or concerns.

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