

FINANCIAL PLANNING NOTES

CLIENT NEWSLETTER

“On what principle is it that when we see nothing but improvement behind us, we are to expect nothing but deterioration before us?”

—Thomas Macaulay

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CORONAVIRUS: “SAME OLD, SAME OLD” OR MILES AWAY FROM ORDINARY?

There are two conversations my girlfriend and I have a lot. One we’ve been having for years: Why do I watch that disgusting zombie show? I don’t really have a good answer. It’s just my opinion, but it hasn’t been good for years. I guess I just want to know how it ends.

The other conversation is more recent: How bad is the coronavirus? She is sure that the Chinese government is concealing hundreds of thousands of deaths and that the death rate is way more than the reported 2 to 3% of those infected.

The two conversations merged last night for the first time, as I finally conceded that the viral outbreak is looking pretty serious worldwide but then proudly declared that my faithful viewing of *The Walking Dead* has left us well-prepared for the post-apocalypse.

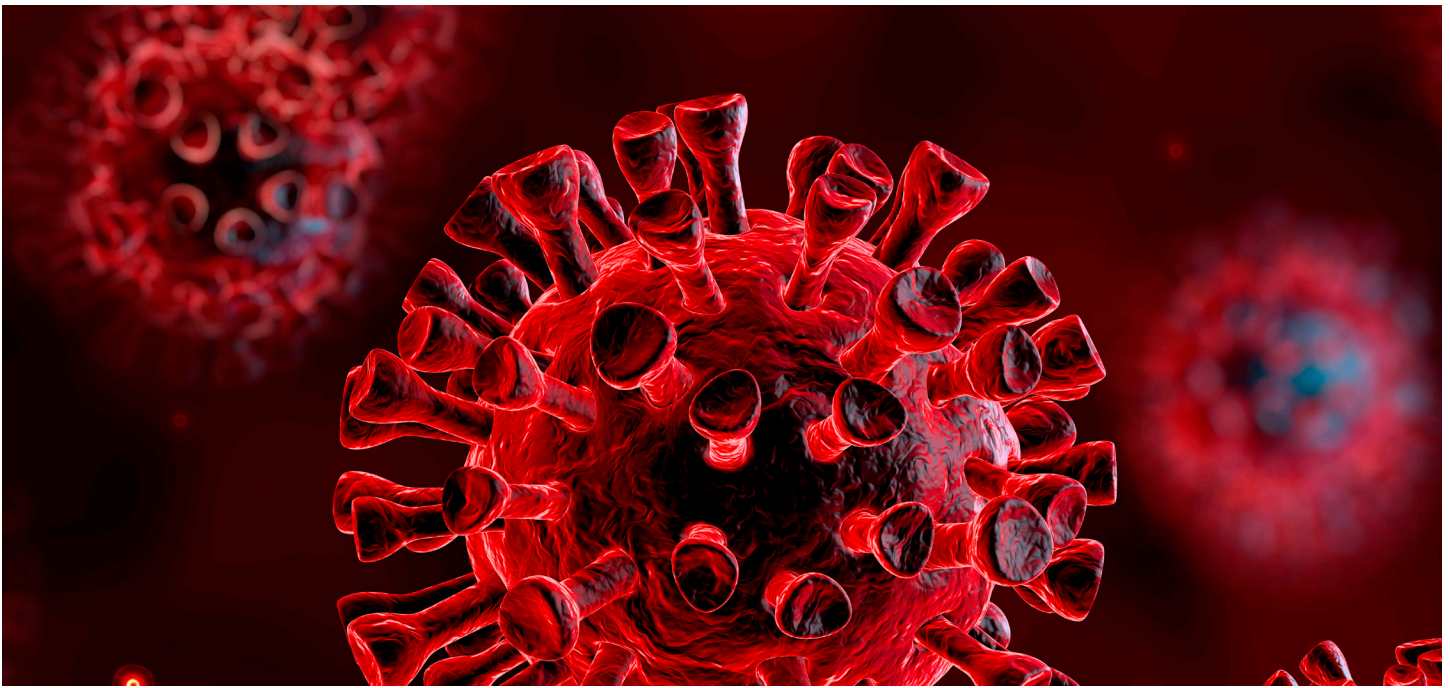
OK, perhaps I am still not taking the threat of a global pandemic seriously, but the financial markets sure have. We just had a 2,000-point-plus plunge in the Dow Jones Industrial Average in two days, and more volatility will likely follow as more countries announce their failure to contain the disease’s spread.

As of late February, COVID-19, better known as the coronavirus, has been confirmed in 32 countries, with 79,407 cases and 2,622 deaths. For perspective, the number of cases is about the same as the seating capacity of AT&T Stadium, home field of the Dallas Cowboys.

But for a little more perspective, the population of the world would fill Cowboy Stadium 100,000 times over, meaning the infected population is about one-thousandth of 1 percent (0.001%) of the world. Even as a percentage of the Chinese cities that have been quarantined (about 50 million people as of mid-February), the disease has infected only two-tenths of 1 percent (0.2%) of the population.

And yet a little more perspective: The U.S. Centers for Disease Control and Prevention recently gave an update on the 2019–2020 flu season. Despite the flu vaccine showing a much higher effectiveness than last year (45% vs 29%), 280,000 people have been hospitalized with the flu this season, **and 16,000 people have died**. That’s all just from the regular old every-year flu, and just in the United States.

So why the coronavirus panic? Why is the whole world so much more spooked than other disease outbreaks that are so much more common and deadly? Well, it’s a trick question. There always seems to be a little too much panic (and stock market volatility) when a new disease pops up. Remember bird flu? SARS? The Zika virus? They all caused some level of panic and market pain, along with a bunch of other disease-related news stories over the past couple of decades. But in just about all cases, the market reaction over the slightly longer term was “meh.”



Disease	Date	Cases	Deaths	% Change in S&P 500	
				6 months ¹	12 months ¹
SARS	Apr 2003	8,098 ²	774 ²	14.59	20.76
Avian (bird) flu	Jun 2006	1,568 ³	616 ³	11.66	18.36
Dengue fever	Sep 2006	3,613 ²	50 ²	6.36	14.29
Swine flu	Apr 2009	millions ⁴	100,000+ ⁴	18.72	35.96
Cholera	Nov 2010	665K ⁴	8,183 ⁴	13.95	5.63
MERS	May 2013	2,494 ⁵	858 ⁵	10.74	17.96
Ebola	Mar 2014	28,637 ⁶	11,315 ⁶	5.34	10.44
Zika	Jan 2016	174,667 ²	18 ²	12.03	17.45

That's a lot of pandemic panics in not very many years. Coronavirus is already in the top four for number of people infected but has proven to be much less lethal than many past diseases, including avian flu, MERS, and Ebola, which all had death rates **higher than one in three**. And as you can see, the market did not slow down in the wake of those outbreaks.

Of particular note is the swine flu epidemic of 2009. The numbers are staggering, far exceeding all the other listed outbreaks (plus coronavirus) combined. It also spread at a horrible time, during the peak of the Great Recession. And yet, when capital markets were ready to move in later 2009, they did, and did so robustly, without concern for the spreading, deadly pandemic.

The financial media have a long list of concerns they are shoving to the front page: China's massive quarantines could slow down the global economy. Airlines could post staggering losses as fewer people travel. The flow of goods will be disrupted as countries prevent entry of shipments from affected areas. I can't make an argument that none of the above will happen, only that the long-term (and history tells us, the short-term) impact on a diversified portfolio will likely be negligible.

In the end, my best advice is (1) get a flu shot, (2) avoid unnecessary travel for a while, and (3) **leave your portfolio alone!**

—Steve Tepper

Sources:

How the stock market has performed during past viral outbreaks by Mark DeCambre, marketwatch.com, Feb 24, 2020.

Flu shot better than last year, despite tough season for kids by Erin Schumaker, abcnews.go.com, Feb 21, 2020.

¹ Dow Jones Market Data, compiled by marketwatch.com.

² Wikipedia. (Zika numbers shown do not include stillbirths and infant deaths.)

³ Avian Flu Fast Facts, June 10, 2019, CNN Library.

⁴ Centers for Disease Control.

⁵ World Health Organization fact sheet.

⁶ *Ebola: Mapping the outbreak*, bbc.com, January 14, 2016.

WHEN YOU HAVE 103 YEARS TO DO ESTATE PLANNING

I frequently take the occasion of a celebrity death to step on the third rail of wealth management: estate planning. Often, the rich and famous do a horrendous job of planning for their demise. Aretha Franklin famously avoided committing any legacy wishes to paper, and the untimely death of Prince in 2016 set off a frenzied search for an heir.

Estate planning shouldn't be such a difficult topic. It's just that obstacle called human nature. We really don't like to talk about death, least of all our own. But the benefit of taking care of it sooner than later is evident. Not only will it resolve potential conflicts among your loved ones, it will give you peace of mind in your later years, knowing proper plans have been put in place.

Shortly after Kirk Douglas's death last month at the age of 103, details of his estate plan emerged. Over the course of decades, he and his wife established a

charitable trust with the intention of giving away most of their estate to their favorite charities upon passing. Recipients of their largesse include his alma mater, his religious congregation, a children's hospital, and an eponymous theater in Los Angeles.

While the gifts likely won't be immediate (Douglas's wife, Anne, is still alive—at 100!—and serves as managing trustee to the foundation), the couple's careful planning provides a high degree of assurance that their legacy wishes will be fulfilled.

Douglas apparently took another important step in the estate planning process: making his plans known to his children. Son Michael has often publicly praised his parents' charitable largesse. I guess it's good to have so much money you aren't bothered a bit by your parents leaving you none of their \$60 million estate! (Michael and wife Catherine Zeta-Jones's own estate is valued in the vicinity of \$300 million.)

Perhaps it makes sense that in 103 years, Douglas had time to get around to estate planning. We don't all get that much time. If you don't have up-to-date estate documents, get in touch with an estate planning attorney today!

—Steve Tepper

Source: *Kirk Douglas Leaves Fortune to Charity* by Anna Sulkin, WealthManagement.com, Feb 25, 2020.

STEVE'S PEARLS OF WISDOM

We don't know when we will be rewarded for the risk we take by investing in capital markets. And that is precisely why we get rewarded in the first place.

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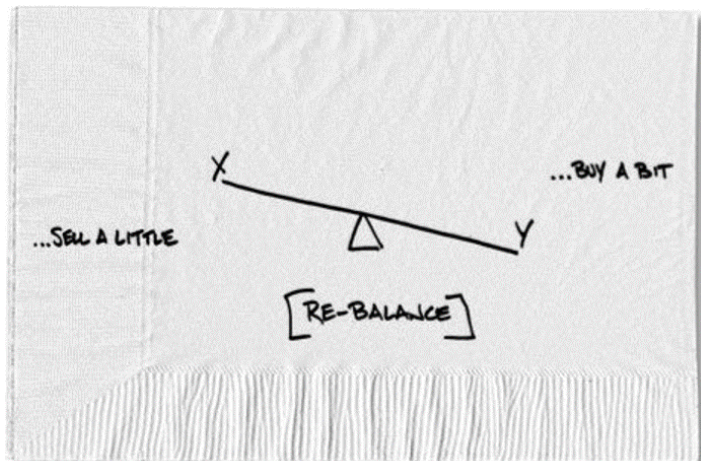
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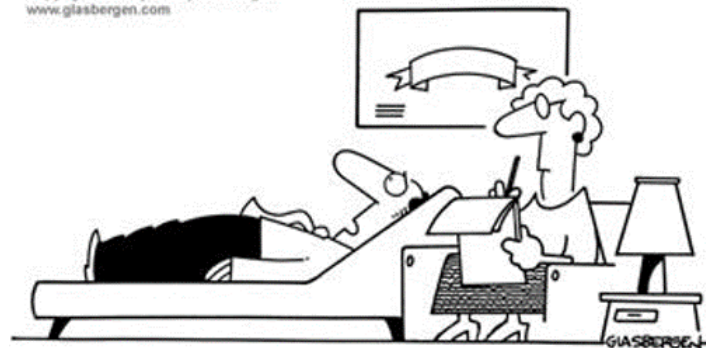
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FINAL THOUGHT

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