MERITAS ADVISORS

FINANCIAL
Insights

October

Financially preparing for natural disasters

Just last month, Hurricane Florence made landfall in North Carolina causing an estimated $38 billion in damage. In 2017 alone, natural disasters resulted in a total of $306 billion in damages across the United States. While safety is an obvious concern during any natural disaster, many underestimate the financial burden that will follow. Here are some financial steps to take today to prepare for a natural disaster.

Assess your insurance coverage

Insurance can be vastly underappreciated until it's finally needed. Unfortunately, once the unexpected does occur, it'll be far too late to add coverage. Take some time to review your current policy coverage and don't hesitate to reach out to your agent with questions. Some of the most frequent damage in coastal natural disasters such as ground movement, wind, and flooding, isn't covered by most standard homeowner policies.

Maintain proper records

Alongside proper insurance coverage, you should maintain proof of ownership of your key possessions. Keeping receipts of major purchases is always a best practice, but credit card statements can serve as a backup in most cases.

Taking photos or video throughout the interior and exterior of your home can help provide further proof of ownership and can also be used when making claims on damages. High ticket items such as artwork, jewelry, electronics, and furniture should be well documented.

Go digital when possible

Though paperwork continues to become a thing of the past, consider what may happen in the event of a mail interruption after a major natural disaster. Important items such as paychecks, Social Security benefits, mortgage payments, and utility bills could be inaccessible for weeks.

Many payments can be set to be paid automatically and direct deposit sends income directly to your account, allowing you to focus on recovering instead of tying loose ends.

Keep emergency cash on hand

Natural disasters often bring widespread power outages that can limit your ability to get cash from an ATM or for stores to process credit card payments. Keeping an emergency reserve of cash on hand ensures you can make essential purchases. Be sure to have a variety of bill denominations as some stores may be unable to change larger bills.

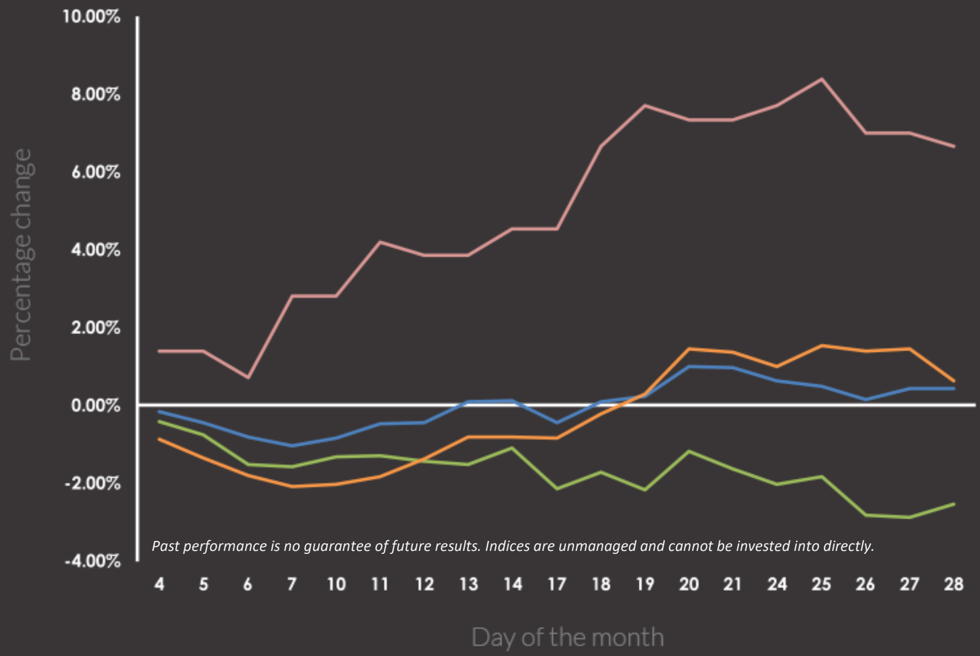
The market at a glance
September

U.S. Large Cap
(S&P 500)
2,913.98 (0.43%) ▲

U.S. Mid/Small
(Russell 2000)
1,696.57 (-2.54%) ▼

International Large
(NYSE International 100)
5,587.13 (0.62%) ▲

U.S. Treasuries
(U.S. 10-year Treasury yield rate)
3.05 (6.64%) ▲



The market in action

- Hurricane Florence made landfall in North Carolina on September 14th with damages that could total between $38 and $50 billion. Despite the devastation, its impact on the U.S. economy is projected to be modest, slowing quarterly growth from the projected 3.9 percent to a still healthy 3.7 percent.

- Amazon became the second American company to reach $1 trillion in market value following Apple, who hit the mark in early August. In the past 12 months, Amazon stock has more than doubled, which analysts attribute to gains in its web services business, advertising revenue, and Prime membership subscriptions.

- U.S. cable provider Comcast acquired British telecommunications company Sky for $39 billion, outbidding rival Fox. The company's CEO, Brian Roberts, cited increasing international reach and improving original programming as primary motivations for the deal.

- In response to a lawsuit from the Securities and Exchange Commission, Tesla has agreed to settlement deal including a $20 million fine alongside Elon Musk stepping down as chairman of the company. The SEC suit claims Musk misled investors with recent comments about taking Tesla private, which caused the company's stock price to soar. Musk will remain CEO under the deal.

Stocks go on sale again

If you're the kind of person who like to worry, then October has given you plenty of stimulus. After yesterday's close the S&P 500 index has lost 7.9% in this month alone, wiping out almost all the gains that we've enjoyed this year, putting the index barely in positive territory. The once-soaring Nasdaq Composite Index of technology companies tumbled 4.4% on October 24th alone.

In times when the markets are dropping, especially when they've hit correction territory (commonly defined as a 10% drop), the media needs to find a narrative, and you hear all sorts of theories. Corporate earnings have nowhere to go but down. The tariffs are slowing down economic activity. Interest rates are rising.

All of that is true, but none of it has anything to do with why the markets are falling. The only true headline, and one you will never read, is that stocks are falling because some people are losing faith in their investments and selling out to bargain hunters. Sometimes this activity feeds on itself; when people see the market falling, they, too, begin to panic.

The stock markets periodically deliver losses for reasons which are not always obvious even after the fact. Bear markets are a normal part of investing, and this is actually a good thing, because it allows real investors to periodically buy stocks at discounted prices. Research has shown that there is a gap between the return that most investors get from their stock investments and the actual returns delivered by those stock investments. This is, of course, because they sell this or that fund before it goes up, or sell out and then wait to get back in until the market has gone up past where they sold. Getting the full return of the markets is relatively easy: just hang on during those periodic downturns.

But those downturns are terribly painful, right? Take a look at this chart, created by First Trust Corporation, which shows the bull and bear markets since the Great Depression. Notice that the downturns have been sharp but relatively brief, while the up-markets have been protracted and generous. This has been the pattern up to now, and there's no reason to think it won't continue, unless you believe that the millions of people who go to work each day for their corporate employers are somehow destroying value instead of creating it.

You don't need an explanation for why markets go down in order to benefit from them. You just need the ability not to startle when the herd of investors suddenly makes an unexpected dash for the exits—to, as Warren Buffett once said, be greedy when others are scared, and scared when others are greedy.

Worry about the downturn if you want, but know that worry is the precursor to being scared. And if you see somebody predicting where the markets are going to go from here, if they're not wearing a wizard's hat and gazing into a crystal ball, it's probably best to turn off your attention.

-Bob Veres

Sources:

https://allstarcharts.com/stock-prices-falling-perfectly-normal/

https://www.bloomberg.com/news/articles/2018-10-23/asia-stocks-look-mixed-as-late-u-s-rally-falters-markets-wrap?utm_campaign=socialflow-organic&utm\

History of U.S. Bear & Bull Markets Since 1926

This chart shows historical performance of the S&P 500 Index throughout the U.S. Bull and Bear Markets from 1926 through September 2018. Although past performance is no guarantee of future results, we believe looking at the history of the market's expansions and recessions helps to gain a fresh perspective on the benefits of investing for the long-term.

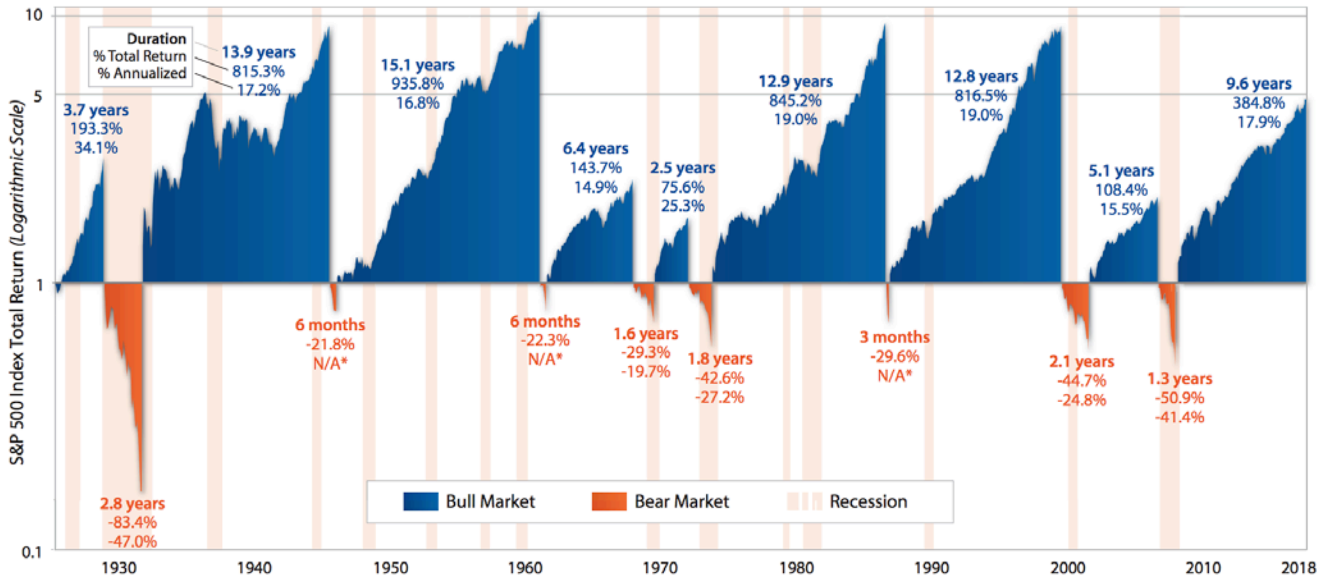
- The average **Bull Market** period lasted 9.1 years with an average cumulative total return of 480%.
- The average **Bear Market** period lasted 1.4 years with an average cumulative loss of -41%.

Bull

From the lowest close reached after the market has fallen 20% or more, to the next market high.

Bear

From when the index closes at least 20% down from its previous high close, through the lowest close reached after it has fallen 20% or more.



Source: First Trust Advisors L.P., Morningstar. Returns from 1926 - 9/28/18. *Not applicable since duration is less than one year.

Meritas Advisors, LLC
info@meritasadvisors.com
meritasadvisors.com

4040 Civic Center Dr., Suite 200
San Rafael, CA 94903
415-690-8547