



THE DANA VIEWPOINT

March 11, 2020

## **Virus Update: Caution is Warranted**

A Portfolio Manager spends his days gathering information, assessing its validity and making prudent decisions. The topics vary. One week, it may be a pharmaceutical company – another week, an energy company. A cumulative knowledge base builds over time.

More valuable than this knowledge, however, may be the Manager's development of a framework for weighing benefits and risks. Does this risk outweigh that benefit, or is it the opposite? Sometimes these decisions cannot be easily quantified. The conclusion is best described as a gut feeling, yet it is distinctly unprovable. This risk framework is especially useful for novel situations.

The Coronavirus presents such a situation. At Dana, we have extensively examined the facts and circumstances of this outbreak. Our assessment? Caution is warranted.

While a sensationalist media is ignorable, we cannot ignore a disturbing set of facts.

Over the last week, Coronavirus cases reported in Western European countries and the United States have accelerated upward. As of March 11th, the United States has 1,015 cases. A week prior, the number was less than 200. This is exponential growth. We might blame the availability of testing kits, but France, Spain and Germany – each with over 1,500 cases – have demonstrated the same exponential growth.

Thus far, the countries effectively managing virus clusters of this magnitude have enacted strict containment policies, sacrificing economic output and social conveniences. China locked down the city of Wuhan after just 600 confirmed cases. Japan, Korea, Hong Kong and Singapore have experienced outbreaks of varying degrees in the past (e.g. SARS). They were prepared. In all of these countries, containment is ongoing.

Italy and Iran were slower to act. On March 10th, Italy reported its largest daily increase in Coronavirus cases, which now total over 10,000, second only to China. The mortality rate is a staggering 6%. As of

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March 9th, the entire country is under quarantine. Iran is at 8,000 cases and a 3.5% mortality rate. Officials there continue to resist a broad quarantine. Italy and Iran are in full-blown public health crises.

The evidence seems clear. Once a virus cluster is large enough, it requires aggressive containment measures to preserve public health. If the pattern holds, the greater Seattle and New York City regions will be effectively quarantined within weeks.

We have heard the comparisons of Coronavirus to the flu. This is mostly an argument about severity and mortality. On this front, we are particularly disturbed by the outbreak at the Life Care Center nursing facility outside of Seattle.

This facility is well-equipped with medical supplies and professionals. On February 19th, Life Care housed 120 residents. As of March 7th, over a period of just 17 days, 26 of those residents had passed away, with 18 confirmed Coronavirus deaths (and more suspected). Typically, deaths at this facility range between 3 and 7 per month. A Coronavirus mortality rate of 15% (at least) in less than three weeks is deeply troubling.

We suspect that our caution today will be pervasive in short order. Americans will work through this, but not without fear and uncertainty. We have yet to see the full effects of this virus on investor psychology. Economic output will be disrupted, and equity market earnings will decline.

Accordingly, we have acted with prudence to reduce risk across our equity strategies over the last few weeks. We are also very conscious of the opportunities that market sell-offs create. We will scale into these opportunities as they present themselves. This is a dynamic environment, and we will act decisively.

As always, our clients remain our foremost concern. Rest assured, Dana has successfully navigated difficult environments in the past. We are confident that we can do the same moving forward.

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