The Detroit News
February 28, 2020 | Front Page

Stock market tailspin fuels 401(k) worries

By Breanna Noble
(excerpt)

Stock market indexes had their worst one-day drop since 2011 on Thursday amid widening alarm, as coronavirus cases in Europe and the Middle East grew, and officials in Germany and the United States identified patients with no known connections to others who are infected.

Although financial markets had been fairly resilient to the outbreak for the past month, its expansion in Italy, Iran and South Korea this week ratcheted up the uncertainty around the economic and business implications, and sent 401(k) values downward. The Dow fell another 1,191 points Thursday, off 4.4%. The S&P 500 fell a similar percentage, and the Nasdaq sunk 4.6%

But it's not time to panic, experts say. …

… It had been anticipated the outbreak would create disruptions in the global supply chain. But as the coronavirus spreads, it might begin to affect demand for certain products as quarantines take effect and measures are taken to prevent further expansion. And although nothing of the sort has happened in the United States, Japan said Thursday it was starting spring break earlier, extending it for the full month of March to contain the disease.

"That affects parents and their ability of what they can do, where they go, if they eat out," said David Kudla, CEO of Mainstay Capital Management in Grand Blanc. "Travel, leisure, industrials get affected."

As a result, Kudla for now is staying away from those vulnerable kinds of stocks. Instead, he has turned to safer havens.

Mainstay's portfolios on average have fallen in value less than 1% during the downturn, Kudla said. He recommends hedging stock market investments with gold, which is up 9% year-to-date compared to the market indexes, which are down. Mainstay last week also invested in long-term treasury bonds. On Thursday, 10-year and 30-year treasury yields hit record lows.

"Hedges during a negative episode start zigging as their stocks are zagging," Kudla said. "It diversifies their portfolio and helps to counterbalance what stocks are doing."

The coronavirus episode is an opportunity for investors to assess if they are diversified well or not, he said. Younger people with more time before retirement might want to take advantage of the stock market's lower prices and buy on the dip.

And those looking to build capital should just ride out the swings.

"It's important for people to take a step back and just look at their portfolios and assess what their personal risk tolerance is," Kudla said.

"If they're not comfortable, then that's a sign maybe they have too much risk in their portfolio, and if they are, sit tight."