



## Regions Wealth Podcast

### **Episode:** *Special Series: The Financial Impact of COVID-19*

As the nation responds to the spread of COVID-19, many Americans are wondering how the coronavirus might impact their finances. In this special episode of Regions Wealth Podcast, Chief Investment Officer Alan McKnight joins us to discuss the potential short term and long-term financial implications of COVID-19, and what steps individuals can take to help safeguard their finances.

### **Episode Transcript**

#### **Ann Johnsos:**

Welcome to Region's Wealth podcast, the podcast that tackles life's challenges with financial experience. I'm your host Ann Johnsos.

As the nation responds to the spread of COVID-19, many Americans are wondering “how might the coronavirus impact my finances?” This special episode will touch on the potential short term and long-term financial implications of COVID-19, and what steps individuals can take to help safeguard their finances. Joining me remotely is Alan McKnight. He's the chief investment officer for Regions Bank. Alan, thanks for being part of this while also social distancing.

#### **Alan McKnight:**

Thanks for having me. It's great to be here.

#### **Ann Johnsos:**

All right. Let's get right to it. How have Americans been affected by the COVID-19 crisis?

#### **Alan McKnight:**

Individuals of all income brackets have been impacted by the COVID-19 response. That said, many high-income bracket earners have a greater proportion of their assets in the equity markets. So as we saw the downturn and downdraft in the equity markets really across all levels, in terms of market cap and size, those high income earners were disproportionately hit in their savings. Now that said, many of the higher income bracket earners also have greater savings and more of a buffer to manage through the downturn. So in effect, it's the tale of two cities. While they were impacted, as it relates to their equity exposures, they also have higher savings than the lower income side, who've been disproportionately hit with limited savings as well as the immediate impact of both furloughs and job loss.



**Ann Johnsos:**

The full impact of COVID-19 has likely yet to be felt. What steps can individuals take to safeguard their finances?

**Alan McKnight:**

Well, as Thomas Payne wrote back in 1776, these are the times that try men's souls, and in an aptly named book, *The Crisis*. And that's what we're experiencing right now in that, as an individual, you have to work against the desire to make poor choices in a time like this. And the key to that is having a plan and goals. Or as we like to call it the belt and suspenders approach, and the fact that what you can't do is rely upon the noise that you hear in day to day media, social media, because that's only going to cloud your judgment.

As real estate developers often say, "Location, location, location." We would argue that the key is, "Liquidity, liquidity, liquidity." Ensuring that you have ample liquidity to manage in even the worst draconian environment or further rolling epidemics is the most critical point for any individual investor, because even the most resilient professions are hit in a time like this. Professions such as dentists, owners of hair salons, doctors, really going down a list of various professions, jobs, business owners, are all being hit in the impact of COVID-19 with the closures. And therefore, it's critical to understand how much risk can you take, how much liquidity is needed, even in the worst case scenario. And then ensuring that you don't wake up at night worried about whether or not you will have enough money, whether you can take on the appropriate level of risk. Again, coming back to this concept of focus on what you can control, your goals and your plan, and the rest will follow suit.

**Ann Johnsos:**

So what mistakes have you seen clients make during tough economic times?

**Alan McKnight:**

Well, first and foremost, the most obvious mistake that is made is panic in selling. So we've experienced the 2008 and 2009 crisis. Many experienced the 2000 tech bubble, the Asian debt crisis, or going far enough back to 1987 and the sell off that ensued in the markets then. In each of those cases, there are a litany of folks who immediately panic, worry, and begin to sell. And they sell indiscriminately without any real sense of value. And unfortunately it hits the classic theme of buying high and selling low.

And there's the desire to exit from all risk assets and during those time periods, then chasing assets as they come back up. I'm always reminded of some advice that I received earlier in my career from a trader that I worked with. When he was asked, "What do you do if you feel compelled to double down on a losing position?" And his comment was always, "I put my finger in the drawer and slam it a few times until the feeling goes away." And I think that's



indicative of what most people should be thinking about and doing. Unfortunately, it's easy to get caught up in the noise.

**Ann Johnsos:**

What benefits does the CARES Act have on this audience, particularly when it comes to IRAs?

**Alan McKnight:**

The benefits are twofold. One, required minimum distributions from IRAs, 401(k)s, 403(b)s and other retirement plans have been suspended, with the rationale that RMDs are based off of the prior year balances in 2019. And therefore, the government didn't want to penalize those savers as they had to enact the required minimum distributions. Number two, it created the ability for individuals to withdraw up to \$100,000 from retirement accounts, from a 401k or an IRA account, in total without having to pay a 10% penalty if they are under 59 and a half. So net net, the benefit is that those savers and those folks who have put money into retirement plans have a lot more flexibility to ensure that they're able to navigate through this very difficult time.

**Ann Johnsos:**

So Allen, how should I alter my savings strategy and how should I alter my borrowing strategy?

**Alan McKnight:**

Savings and borrowing really go hand in hand. So when you think about the savings strategy, it's key to understand what are your plans and your goals? Are you still on track and what levers can you pull to ensure that you get back on track if you weren't before. So understanding how has the most recent market downdraft impacted your savings? What does it look like going forward? And are there any changes to the model that may need to be included, such as the need for greater cash flow, the ability to take on more or less risk and then follow forth from there to understand what the actual percentage should be on a go forward basis.

And in many cases that may mean a short-term increase in savings, while then being able to come back to the original number at a later date as the economy begins to normalize. On the borrowing front, the question would be around liquidity. As we talked about earlier in the podcast, liquidity is king and understanding how much do you need and how can borrowing be utilized there versus your savings? What we do know is that interest rates are at their lowest level in history, so right now is a fantastic time to borrow if you already have ample liquidity, but you may have short term needs that you would rather not sell assets to generate or to cover for. What we don't recommend is taking on more risk as it relates to borrowing when it's unneeded and you may have liquidity in other parts of your portfolio.

**Anne Johnsos:**



Okay. So you mentioned the low rate environment. In what ways is this low rate environment different from a typical one?

**Alan McKnight:**

Borrowing costs are actually at all time lows and that's because central banks around the world have stepped in to intervene to ensure that there's ample liquidity and breadth to the credit markets and high quality borrowers can actually demand incredible terms right now in refinancings, whether that is on a personal front with mortgages or home equity loans or at the corporate level. Now that said, because of this artificially low environment and the intervention by these central banks, it's not the normal scenario that we've seen historically. And specifically, it's due to a health pandemic rather than a specific economic issue, such as in 2008 and 2009 with the housing crisis, the tech bubble of 2000, 2001, or the Asian debt crisis of '97, '98.

We are not used to having to deal with a health pandemic. We really haven't seen anything of this nature at a global scale since the 1918, 1919 Spanish flu. And therefore, rates are low and will probably remain low for an indefinite period. But there is great difficulty in forecasting the economic environment going forward. So borrowers may want to wait until they have a better understanding of what that looks like before they take on more debt.

**Anne Johnsos:**

Finally, we like to leave our listeners with some key takeaways, something they can tell their friends as they communicate through conference calls or web meetings or however else. Is there anything you'd like to make sure people know?

**Alan McKnight:**

So for those who've ever traveled to New York, there are two lions that sit in front of the New York Public Library. They were originally named for the benefactors of the library, but they were actually renamed by Mayor Fiorello La Guardia in the 1930s during the depths of the Depression and they were renamed to Patience and Fortitude. And we think that's emblematic of how investors should handle the situation today, with both patience and fortitude. And that means start with your plan, review your goals and objectives and your risk tolerance, understand where you fall on that landscape of your plan today to understand am I below plan now? Am I taking on too much risk, too little risk? And what are the levers that I can pull to ensure that I either get back on track or ensure that I can sleep easy at night and not worry about the course and defining success along the way. So we recommend to our audience that they engage with their advisors, with their portfolio managers at this time. Don't get caught up in the noise and stay focused on what you can control.

**Anne Johnsos:**



Thanks so much. Alan McKnight, chief investment officer at Regions Bank. Your upbeat perspective is exactly what we need.

**Alan McKnight:**

Thanks so much for having me.

**Anne Johnsos:**

And thank you for listening. Every episode of Regions Wealth Podcast tackles a different financial challenge with the help of a Regions advisor. We hope you'll join us again, and share this podcast with a friend. See you next time.

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