

Hello Everyone,

OK. Here is what happened. As I started writing this series on the ***Eight Stages of Crisis***, the words just poured out. (Why didn't this happen with term papers in college?) I wrote enough for 2 ½ KKOB segments in what felt like the blink of an eye.

Then, on Friday, as I went to cut-and-paste the Friday missive into the email, I grabbed today's segment and sent it instead of Part 1. Ugh.

Thus, today you are getting Part 1 and Part 2 (I made a couple of changes before going on air) strung together.

Despite my error, my hope is, by the end of the series you will have a very good framework from which to evaluate the real impact of Covid19.

Signed, Your Embarrassed-But-Pleased-with-This-Series Financial Advisor,

Greg

KKOB 04.17.2020 Eight Stages of Crisis Part 1

Bob: So, Greg, my understanding is today you want to start another one of your "mini-series" about investing. This one is called the ***Eight Stages of Crisis***. Right?

Greg: Right. And, Bob, as you might guess, some pretty smart people have studied what happens during a crisis. And regardless of whether the crisis comes from war, natural disaster, pandemic, or financial collapse....crises all have the same general stages.

So, for this series, I am going to use a framework developed by researchers Zunin and Meyers and tweaked by author John Wilder. Sound good?

Bob: Sure. I guess I never really thought there would be phases to a crisis. But, I get it. People are people. So, I guess our reactions to crisis can be studied as well as any other human behavior.

Greg: Right. So, let's start with stage one. ***The Warning***. Bob, the warning stage can be very short. Think of the Twin Towers

falling. There wasn't much time for those poor people in the World Trade Center to avert disaster.

Or, ***The Warning*** can be weeks or months. Think Pearl Harbor. We had hints of the attack in the weeks prior, but not many believed it would really happen. Or, it can be longer. Think the Civil War or WW I. For years (even decades) thoughtful people warned we were on the road to war----but it was as if it couldn't be stopped.

Bob: So, with Covid19, I would put that in the medium category. We had hints of the disease in December. But it wasn't until late January/early February we began to grasp how serious this could be.

Greg: I agree. So, after ***The Warning***, you get ***The Event***. ***The Event*** is easy to see. Pearl Harbor is bombed. The Twin Towers are hit. Stocks crash in 1929. And, even if ***The Event*** rolls out like Covid19 has, everyone knows the world will never be the same.

That brings us to stage three which is ***Disbelief***. Like ***The Event*** stage, ***Disbelief*** is short. *"I can't believe the Japanese bombed Pearl Harbor!" "What do you mean stocks are crashing?" "What? Another plane hit Tower 2?!"*

It's not that we disbelieve it, it's just ***The Event*** is so outside the norm we have trouble processing it. Plus, there is always some inertia---or habit---that dictates our behavior. For instance when the power goes out at the house, we still walk into the kitchen and flip the switch. That's the disbelief stage.

Bob: So, if I am following this correctly, with Covid19 we have already been through ***The Warning***, ***The Event***, and the ***Disbelief*** stages.

Greg: Correct. Next comes ***Panic***. After ***The Event & Disbelief***, a small group of people will react in a calm rational way. Most, however, freak out. *“I need toilet paper and hand sanitizer—and I need it now!”* We just saw panic play out all across America.

And, look, I’m not minimizing panic. Panic has kept humans alive for thousands of years. You run from the saber-tooth tiger or the grizzly bear.

Anyway, how has this affected the markets?

Well, I would say we have seen the first four stages manifest plainly in the stock market over the past 4 months.

Like most people, the markets ignored ***The Warning*** stage. That makes sense. China lied. Covid was downplayed.

The Event and ***Disbelief*** stages rolled out in a choppy manner as people tried to grasp whether Covid was the Black Plague or just the flu. And that choppy action showed up on Wall Street as stocks reacted in a herky-jerky manner to every rumor, press release, and medical briefing.

Then, we hit the ***Panic*** stage.

As people hoarded TP, down went the Dow-- Bam! Bam! Bam! One thousand, two thousand points a day. Years of gains were erased in weeks.

That brings us now to stage 5---the one we are in now. But I am out of time and this stage needs time to develop. So, if it’s OK, let’s pick it up again on Monday.

Bob: That was quite the tease! Sounds good. So, will this help us decide how to invest going forward? And how do people reach you?

Greg: I believe so. That's the goal. And, my number is 250-3754. Or, go to my website at zanettifinancial.com.

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Bob: So, Greg, on Friday we looked at the first four phases of what researchers call the eight stages of crisis. Those phases were:

- First, ***The Warning***
- Second, ***The Event***
- Third, ***Disbelief &***
- Fourth, ***Panic.***

And, with Covid19, I'd say we've hit those. But, now we're on to stage five. And that's the stage you say we are in right now. Correct?

Greg: Correct. This stage is called the ***Hero*** stage. It's here certain groups (or players) command our attention.

- The first group I call the **true heroes**. You know who they are. The doctors and nurses who pull a shift, then go home and sleep in the garage so they won't infect their family. Add in the truckers, grocery workers, firefighters, police, food bank volunteers----we all know them.

Group two, I call the **pretend heroes**. These are people who fancy themselves as Spartacus or Joan of Arc. *"I'll save you. I know what to do!"* They have a *movie-in-their-brain* that only they can save society. Generally, they have good intentions, but bad judgment.

This is the hardest group to work with because once this group gets convinced of something, any new data or facts that get in the way of their “heroic-mind-movie” are either ignored or rejected.

For example, think about Angela Merkel in Germany. Because of Germany’s declining birthrate, she came to believe unlimited immigration from the Middle East was the answer. Yet, even as the facts began to counter her view, she refused to change her policies. Only now, as she is leaving office, is she admitting--- I made a mistake. I may have ruined my country.

History is littered with societies that walked off a cliff following pretend heroes with vain imaginations.

Anyway, moving on.

- Group three I call the **anti-heroes**. These people say things like, *“Never let a good crisis go to waste.”* To them, it is all about power and control. They’re typically insiders. They are clever and smart. They know their actions and policies destroy lives, but they don’t care.

This group typically works from the shadows. Think of the big pharma lobbyist who sees Covid19 as a chance to pad his wallet. Or, the financial wizards who benefit early from the printing of trillions knowing the inflationary devastation to follow. Or even consider the anti-gun or anti-church advocates who see Covid as a chance to advance their agendas.

- And finally, there is Group four. I call them the **opportunists**. They think things like, *“Hmmm, I cannot rob a house now, because everyone is home. I guess I’ll break into empty businesses and restaurants instead.”* These are the lower-level rabble-rousers. They instigate violent protests,

not because they care about injustices, but because it offers a chance to loot the local mall.

So, Bob, to sum up, **real heroes**, **pretend heroes**, **anti-heroes**, and **opportunists** are the four groups you see operating in any **Hero** stage.

Bob: I can see all that. I mean, as you talked, I could picture someone from each of those categories. I'd say some people even cross the lines where **pretend heroes** also have some **anti-hero** or **opportunist** traits.

Greg: Great point. The **Hero** stage is the pivot point of any crisis. And, looking at the politics of Covid right now, I would say *politically* the real heroes are not the grandstanders, but rather the politicians who have quietly assembled their staff and said something like, *"Look, because of Covid, we must think like a business does in crisis. Our tax revenues are going to crash. Clawing back could take years. If we raise taxes, it will be like poking holes in a sinking boat and punching people while they are down. Right now, we're scrambling for face masks, but long-term we will be scrambling for taxpayers. Therefore, find ways to cut your budgets 30-50%. And, also, we need to loosen our tax and regulatory burdens. Because, once this is over, we will need to attract enterprising people."*

Bob: Do you think that is going on here in New Mexico?

Greg: I don't know. We'll soon see. If it doesn't happen, we will proceed to stage 6...**The Cliff**. And, at all costs, we want to avoid **The Cliff**. We'll cover that Friday.

Bob: That was great. Thanks. How do people reach you?

Greg: My number is 250-3754. Or, go to my website at zanettifinancial.com.

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