

February 25, 2020

You are not obligated to follow the directions of the popular press and panic.

We have stated before that it is quite normal for the market to correct 5% or more at some point during the year, and many times more than once per year. It is how the stock market behaves in the short run. Annoying, yes. But long-term returns are worth the hassle.

For most of these sell offs, there is news of terrible happenings occurring that explains the sell off. What is happening this week, then, is no different than what happens from time to time in the stock market. Of course, the news today is the news that we are living through and reacting to today. It feels different than the terrible news that caused the last sell off.

It has been said that the stock market is a weighing machine in the long run, responding to growing economies. In the short run, it is a voting machine or a popularity contest. The fact that our press sells fear does not help this dynamic. They bear no cost in the mania they can cause.

There are investors that have money in the stock market that does not belong there. Perhaps they have borrowed money and invested the proceeds in an attempt to boost their returns. Perhaps they need the money next year or next week, and it should not have been in the market to begin with. In any case, when the market turns like this, these investors can become forced sellers and they must get out of the market. We do not have to play along. We are not speculators. We are investors. Responding to the virus outbreak will hurt productivity in the short run, and it will delay economic growth. It will not cease all economies and end the world.

We have bonds and cash in portfolios to provide stability. To the extent that we need funds from portfolios, we can use income, bonds and cash. This gives us the time to allow stock prices to return to normal and reflect the long-term earnings potential of the companies in which they confer ownership.

The market's run up since the beginning of the year was baking in earnings growth expectations for the entire year, before they were proven. When the market gets ahead of itself like this, it is susceptible to volatility when things don't go smoothly. It is true that there is a lack of confidence in the numbers coming out of China. And certainly as the virus spreads outside of Asia, the fear gets closer to home. China has reported that 0.005% of their population has been diagnosed with the Coronavirus. Perspective and reasonable reactions are recommended.

Regards,

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