

The Market in Review

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This week's articles and insights

1. *Keep Calm and Carry On*
2. *Speaking of Panic*
3. *Optimist + Pessimist = Realist*

“There is nothing new on Wall Street. There can't be because speculation is as old as the hills. Whatever happens in the stock market today has happened before and will happen again.”

— Jesse Livermore

Your Index Report

	Current	Last Week	Year-to-Date
Dow Jones Ind. Avg.	26,958	- 8.14%	- 5.53%
S&P 500	3,116	- 7.97%	- 3.54% (- 1.01% in \$CDN)
TSX	17,042	- 4.93%	- 0.13%

Keep Calm and Carry On



Keep Calm and Carry On was a motivational poster produced by the British government in 1939. It was made to prepare people to stay strong during times of adversity.

One investor who epitomizes staying calm is Warren Buffett. His holding company purchased Coca-Cola stock (**NYSE KO**) in 1988. He held it through the recession of 1990, the dot.com boom when food stocks fell out of favour, and through the long decline from 1998 through 2006 when Coke stock fell every single year. Yet holding on saw his investment increase by a factor of 16 times.

Mr. Buffett also bought Bank of America (**NYSE BAC**) in 2011. The shares fell by 40% within the year and it took him two years to break even. He added more in 2018 to make it his single largest holding. He has held Bank of America through Europe's woes, Middle East wars and global ultra-low interest rates. Holding has made him 2 ½ times his money so far.

Warren Buffett and his partner, Charlie Munger, made their vast fortune by buying high quality companies and then following the legendary trader Jesse Livermore's timeless advice:

"The big money is made by the sittin' and the waitin', not the thinking."

Words to remember as we experience the latest market panic.

Speaking of Panic

And speaking of panic...the last few days have been particularly poor for stocks. We have written that the market was 'overdue' for a correction of 5-10%. The Dow Jones Industrial Average fell 8% in just four days, proving the old adage that markets go slowly up the escalator but quickly down the elevator.

What has changed? The world is increasingly worried about the spread of the coronavirus to countries outside of China. In particular, it has appeared and spread quickly in parts of Japan, Iran, South Korea and northern Italy. It is reportedly now in 40 countries.

By the numbers we have been given from China, it appears the outbreak is slowing there. Recovery rates are rising faster than new cases, which means their draconian quarantines have helped. Then again, few experts outside of China trust that we are hearing the whole truth, but all countries are working hard today on drugs and methods to slow the disease's progress.

Because stock markets are based upon people and their emotions, all booms and busts follow a similar pattern even as they feel different every single time.

Shown below is the most brilliant market cartoon ever drawn (in my opinion). I keep it stored on my computer to remind me that all market oscillations follow the same path. They start small, grow in intensity, peak in madness then gradually fade from exhaustion.

What has changed is the spread to other countries, despite China's efforts to contain it. Markets have gone into spasm since it was discovered in Milan, Italy, and South Korea – two developed countries with good health care facilities.

The chief epidemiologist in the US has now warned America to prepare for a wider-scale outbreak, when schools might have to be closed and mass gatherings limited. No wonder shares of cruise ship companies are hitting 5-year lows. Will we ever take a cruise again?

US and Canadian markets are expecting a dramatic decline in business activity due to the virus. This is not consistent with the number of cases seen so far, nor when compared to past epidemics like SARS in 2003. The odds are growing for a recession, but they are still low.

Optimist + Pessimist = Realist

Optimists have to realize that this is not some random President Trump tweet about tariffs or an overnight attack on Iran. This pandemic will last longer than both of those and cause more economic damage.

Pessimists have to realize that this is not the end of the world. For example:

- While it took 20 months to create a potential vaccine for the SARS virus in 2003, we have a vaccine for Covid-19 (the new coronavirus) entering trials after just 42 days. And, if it works, we will be able to manufacture it in large quantities much faster than traditional vaccines. A global vaccine is many months away, but there will be one.
- This is an airborne virus that affects those with compromised lungs more than others. Wuhan, the centre of the outbreak, has a terrible smog problem such that people living there can breathe the equivalent of 8 cigarettes a day (source: Air Quality Index). Covid-19 affects men in China more than women, which may also be worsened by the fact that 50% of Chinese men smoke versus 2% of Chinese women (source: NY Times). It may be no coincidence that the countries with the highest mortality rates are all countries where smoking is more prevalent. Time will tell.
- 42 Apple stores have reopened in China. China is putting the economy ahead of public health, but it may also be a sign of it peaking there.

In the meantime, we are preparing as follows:

- March is going to be a rocky month for news. Markets are likely to churn up and down as stocks “digest” the announcement of each new country where the virus is found (Brazil has announced it as of Wednesday) and we will be glued to the death count. As weather improves and temperatures rise, all influenzas die back. This one will too as summer approaches.
- We have held additional cash for most people for months. We are very gradually putting some back to work. We said we were waiting for a 10% correction? The S&P 500 is now down 8% in just four days and many stocks have declined much more. This is where you start to put money back into the market.
- Yes, we will take cruises again in the future. Jack-in-the-Box (**NASDAQ JACK**) once killed nine people with bacteria-tainted burgers. Within a few years, the chain became so rigorous about hygiene, it was ranked among the cleanest restaurants in the world. Expect the cruise ship industry to find ways to make their ships the safest and cleanest places on Earth. They will have to!
- Prepare for the small chance there will be school closures and stay-at-home notices. And wash your hands for 20 seconds!

As for stocks, we are probably not finished with markets selling off, but we are getting there. Markets will finish selling long before the event stops.

The 1,031 point decline of the Dow Jones Industrial Average on Monday was the 3rd worst point total in history, but just the 254th worst in percentage terms.

Since this bull market began in 2009, we have had 19 Mondays where markets fell more than 2%. How did stocks do a week and a month later?

One week later, the market rose an average of 3.16%. The numbers were positive in 17 of the 18 years this happened (2020 is not included).

One month later, the market rose an average of 6.08%. The returns were positive in 17 of the 18 years this happened.

Source: Bespoke Investment Group

History suggests most of the selling is behind us. It may not be, so you should be ready with cash and bonds nonetheless. They cushion portfolios when the worst news hits.

Interestingly, the worst may have peaked in China. Unlike our stock exchanges - which have collapsed in the last few days - China's main exchange has been recovering since early February:



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Prices shown as of February 26th, 2020

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