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Mar. 16, 2020

OBSERVATIONS ON THE MARKET

No. 345 b

By Greg Denewiler, CFA

Yes, there have been times when the stakes where higher. World War II and Pearl Harbor, the Cuban Missile crises comes to mind. Some of us may remember doing the drills in grade school of getting under our desks, like that was going to make a difference. There are very few investors left that remember the sacrifices made in World War II - the ration coupons and the widespread disruption caused for the war effort. Not to mention the first few years of the war, countries in Europe were falling like dominoes, which had to have created a lot of anxiety. It is hard to imagine what that uncertainty was like because it might not have temporary. Most of us have never seen widespread sacrifice in our daily lives. Well, we are about to. Investors don't like uncertainty, and now the uncertainty has reached a fevered pitch (sorry). The good news is that everyone knows this will pass, it is just not clear as to how much damage will be created first. It is critical that we keep this in perspective and not let the daily news make us do something that becomes impossible to recover from.

In Saturday's *Wall Street Journal*, Jason Zweig states: "With U.S. stocks down – at their worst – around 27% in 16 trading days, investors need to get out of the prognostication business. Nobody – not epidemiologists, not government officials, not economists and certainly not market strategists – can say how large an impact the coronavirus will end up having. The optimists might be wrong; so might the pessimists." One point to also remember is that the market is always discounting. It has already discounted the likelihood of a recession; we just don't know how severe it will be. Markets also predict recoveries. The average is six months to a year. This is all happening very fast, we see the daily fluctuations.

As investors, the best thing we can do is to stay focused on what we want our portfolios to look like in one year, two years, five years, or even the next decade. Reacting to the next week or month is virtually never in our best interest. We are now in an environment that a short-term decision can be extremely costly. Just consider last week. Last Monday the 10-year Treasury bond reached a low yield of .4%. By Friday, the yield had climbed back up to .95%. This resulted in a 5% loss for those buying the bond on Monday. That resulted in those bondholders losing their entire 10 years of interest in just a few days. The stock market was also down about 5% for the week. However, the stock market, unlike the bond market, gets a share of a corporation's profits. Over time corporate profits go up and prices eventually reflect that. Because interest rates are so low now, the price of safety has never been higher.

In this week's *Barron's*, Ed Yardeni was interviewed as to what his opinion is regarding the economy's current state. He predicts that the S&P 500 will recover and hit 3500 next year. If he is right, you won't care if you bought 10% or 20% before the bottom, 3500 is 30% higher than we are now. The good news is that it doesn't matter if he is right, eventually, everybody who says the market is going higher is right. They just don't know how long it will take. If you are thinking: I don't have ten years to wait? We have never been in a situation where the dividend of the S&P 500 is three times higher than the certainty of the interest of a "safe" Treasury. Yardeni also gives a perspective that everyday about 3,300 people die in car accidents globally, and 20 to 50 million are injured or disabled annually. We have learned to accept that risk.

The next few months are going to be challenging. Gold and Treasury prices declined last week. These are investments that are supposed to be safe havens in times of high uncertainty, but they were not safe last week. The obvious is not always so obvious. Be very wary of the experts, they are everywhere now. This is the time to keep your head while all those around you are losing theirs.