Special Market Commentary Thursday, March 12, 2020

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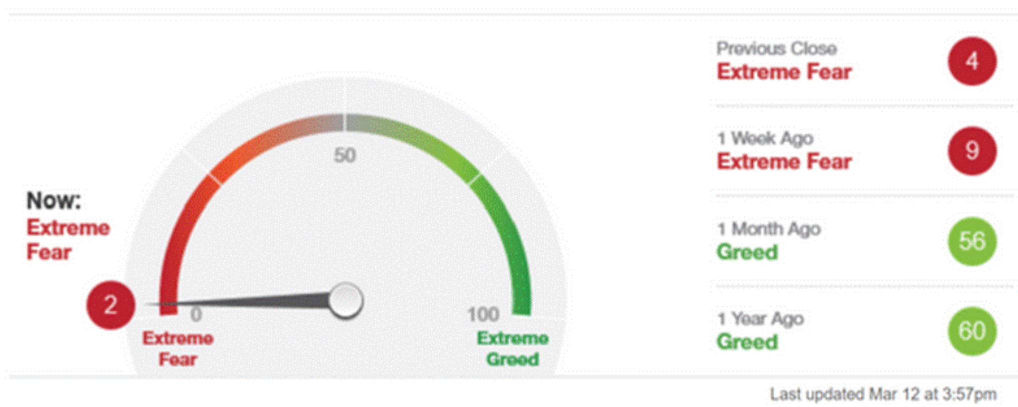
Market Review

In an interview earlier this week, Warren Buffett said of Monday's massive sell-off, "If you stick around long enough, you'll see everything in markets. And it may have taken me to 89 years of age to throw this one into the experience, but the markets, if you have to be open second by second, they react to news in a big time way."

We wonder what the Oracle of Omaha would say about today's even more sizable plunge, which was the second worst one-day decline in your Editor's 33-years with The Prudent Speculator, as the Dow Jones Industrial Average plummeted more than 2,300 points, or 9.99%.

We might expect the Berkshire Hathaway Chairman to reprise one of our favorite Buffett-ism's: "Of course, the immediate future is uncertain; America has faced the unknown since 1776. It's just that sometimes people focus on the myriad of uncertainties that always exist while at other times they ignore them (usually because the recent past has been uneventful). American business will do fine over time. And stocks will do well just as certainly, since their fate is tied to business performance. Periodic setbacks will occur, yes, but investors and managers are in a game that is heavily stacked in their favor."

Of course, with the cacophony of scary headlines, including the restriction of travel from Europe, the closing of Disneyland, the suspension/cancellation of sports leagues and tourneys, and word that Tom Hanks and Rita Wilson have contracted the coronavirus, we recognize that it can be difficult to believe that the game is heavily stacked in our favor. And we must accept that the news is not likely to improve in the near-term, while we understand that stock prices can always move lower still, given that fear is about as rampant as it has ever been.



Extreme fear has consumed the stock market

From CNN Business' David Goldman

CNN Business' Fear and Greed Index sits at "2" out of 100. That's just about as fearful as the market can get.

The VIX volatility index soared 39.5% Thursday to its highest level since October 2008 during one of the scariest moments of the global financial crisis.

In that same interview, Mr. Buffett, who admonishes to be greedy when others are fearful, argued that the financial panic in 1987 was much worse and the market collapse in the fall of 2018 was "much more scary," but this downturn would now seem on par with those events. However, we continue to believe that the banking system is much better capitalized today and we think that ultimately the coronavirus pandemic will start to recede, as has seemingly been the case in China, with news this evening that Apple has reopened all 42 of its stores in the country.

Today, as during the Financial Crisis in 2008/2009,…

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Certainly, we recognize that nearly all equity investors--whether they favor value, growth or something in between--have suffered an incredible beating on an order of magnitude that seemed unfathomable at the beginning of 2008. This brutal bear market has affected all industry groups and virtually every stock. In fact, over the past 12 months, the median total return for stocks in the broad-based S&P 1500 index is -46% while in the large-cap S&P 500 index, only 14 of the stocks are in the black. Given that I invest right alongside our clients, and I use a modest amount of leverage, I am well aware of the pain that folks have endured.

That being said, we do firmly believe that our patience in sticking with stocks during this turbulent period ultimately will be rewarded. The unprecedented level of stimulus being injected into the system, the anticipated resumption of growth in emerging and foreign markets and the $4 trillion (roughly half the $8 trillion value accorded U.S. stocks) sitting idly in money market funds are some of the reasons for our optimism. In addition, we know that historically equities have delivered real (after inflation) returns in the 6% to 7% range, based on 137 years of historical data provided by Wharton's Jeremy Siegel, with Morningstar data over the past eight decades showing actual returns in the 9% to 11% range. And yet, both series include the Great Depression, World War II, the Long Term Capital Management debacle, the Asian contagion, Iraq wars I and II and 9/11.

Though we recognize that many are not thrilled with the new Administration, we do wholeheartedly endorse President Obama's recent assertion (as well as Warren Buffett's) that stocks are attractive, provided one has a long-term time horizon. We've been saying as much for what seems like an eternity now and although our optimism has been humbled by the severity of the current downturn, **we are confident that five, ten and twenty years from now our memories of these trying times will be replaced by fond recollections of a period that created tremendous opportunities**. Though there may still be some room to drop, when the tide turns and the spring uncoils, the upside could be quick and substantial.

…our advice is to stay the course, as we always believe that patience during difficult times will be rewarded. No guarantees that history will repeat, and we doubt that volatility will recede anytime soon, but as we are investing with a long-term orientation, we continue to look to take advantage of opportunities to deploy the modest cash we have in our portfolios (we did some of this today) and to consolidate holdings into our most favored existing names as well as some new ones.

We also want to offer the note that our AFAM team in California as well as our colleagues at our Kovitz headquarters in Chicago are very much equipped to work remotely, as so much of Corporate America is temporarily now doing. We have significant redundancy to conduct business, perform our research and manage our client portfolios.

These are unprecedented times and the future is not knowable. Please take care of yourselves, your family and your friends. Your portfolio, we believe, will take care of itself…in the long run!