Special Market Commentary Monday Evening, March 9, 2020

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Market Review

Mamma always told me there would be days like this. The gory details included a 15-minute trading halt when the markets opened down 7%, followed by plenty of gyrations ups and down before a final-few-minute selloff that left the Dow Jones Industrial Average with a loss of more than 2000 points, or 7.79%. For its part, the S&P 500 plunged more than 225 points or 7.60%, with the already battered Energy and Financial Sectors leading the charge lower, the former after a massive 24% crash in the price of oil and the latter due to sharply lower interest rates and concern about exposure to oil-related companies.

Of course, this is not the first time we have had to endure a big one-day plunge in your Editor’s 33 years with The Prudent Speculator,…

Though it may be hard to believe, the equity market carnage endured on March 9, ironically the day that stocks bottomed out 11 years ago during the Financial Crisis, was only the 19th worst day for the S&P 500 in stock market history (well, since the 1920s anyway) and ranked as the seventh largest decline since the launch of The Prudent Speculator in March 1977. No doubt, single-day losses of more than 7.5% are not easy to endure, but history has positive things to say for those who were willing and able to have kept the faith during prior plunges.
…and though the speed of the decline has been unusual, to say the least, the magnitude of the setback, at least for the S&P 500, has not yet crossed the Bear Market threshold. Indeed, big declines are not uncommon,…

While the S&P 500 has enjoyed excellent long-term returns and endured relatively few negative full years since the founding of *The Prudent Speculator* in 1977, there have been corrections of 15% or more in 16 of the 44 years, including 19% (on a closing basis) in 2011, 2018 and 2020.

…and losses of 17.5% or more occur every 2.4 years on average, even as returns on equities have proved very rewarding for those able to keep the faith when folks seem to all be rushing for the exits at the same time.
To be sure, we respect that it is not just our wealth that is a concern during this downturn, as the coronavirus is a threat to our health, and uncertainty about the economic fallout abounds, but we continue to believe that Corporate America was generally in good shape, with healthy balance sheets, heading into this, so far, correction. And, we agree with what former Goldman Sachs CEO Lloyd Blankfein tweeted today, “Fear can take mkt lower, but expect quick recovery when health threat recedes. Esp in US, underlying economy strong, banks well-capped, system not too leveraged. Unlike ‘08, will avoid systemic damage that cud take years to work thru. Obviously, not ignoring tragic human toll….”

The question, obviously, is when will the health threat recede, and it is difficult to envision the news turning positive on the COVID-19 front in the near-term, so we are always braced for additional volatility. Of course, volatility works in both directions as following the Crash of ’87, the S&P 500 soared 9.1% on 10.21.87, while during the Financial Crisis, there were giant moves up of 11.6% on 10.13.08, 10.8% on 10.28.08, 6.9% on 11.13.08 and 7.1% on 3.23.09.

We believe that time in the market trumps market timing, and, given that we are always working with a three-to-five-year-or-longer time horizon, we retain our enthusiasm for the long-term prospects of the businesses in which we are invested. Yes, this is the same thing we have said following every scary market event, and we respect that COVID-19 is a different animal, but so too was 9/11, especially as yours truly was in Manhattan on 9/11 when the first plane to hit the
World Trade Center Towers flew over my head as I was walking near Union Square. And even though the threat of terrorism is still with us today, the S&P 500 has returned 264.3% (7.2% per annum) since 09.10.01.

We trust that readers were able to peruse this morning’s Market Commentary, but we reprise the thoughts Al Frank penned back in 1998, when his then heavily margined portfolio was down far more than what we’ve endured so far in 2020, “As I struggle to maintain the tranquility and perspective of long-term investing, which has been a bit shaken by recent actions in the stock market, I hope you too can maintain the belief that ‘this too shall pass away.’ Life is pain and suffering as well as joy and triumph, but not necessarily in equal amounts. I think there are many who believe life is a hard struggle with intermittent periods of relief, while others believe that life is generally good with intermittent moments of trauma and darkness. Let us belong to the positive, optimistic class and not let the plethora of seemingly negative events, in the stock market and elsewhere, shake our faith in the good we now have.”

Yes, we confess to having nerves of steel to ride through periods like the present, but one way to stay on an even-keel is to consider the dividend stream that our portfolios provide, especially in relation to what might be obtained in supposed safe-havens.

THE PRUDENT SPECULATOR
Equity vs. Fixed Income Yields

Though stocks are not necessarily a substitute for government or corporate bonds, the current payout on the S&P 500 (2.20%) is extraordinarily generous versus the income provided by fixed income, especially given the recent plunge in rates. And, the comparisons to the average yields for the securities below very much favors equities.
Certainly, dividends are not guaranteed, but TPS Portfolio now boasts a yield of 3.6%, hefty income in a ridiculously low interest rate world. We do have to accept that the value of our principal will fluctuate, potentially wildly, but we suspect many of our readers receive emails from Zillow or Redfin letting them know what their houses might be worth. The latest communication on my home showed a not insignificant decline on a year-over-year basis, not too far off the losses on TPS Portfolio over the past 12 months. Of course, such an email provided little consternation as my home is not for sale…and neither is my portfolio, given my long-term time horizon!