Special Market Commentary Monday Evening, March 9, 2020

March 9, 2020

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*,…

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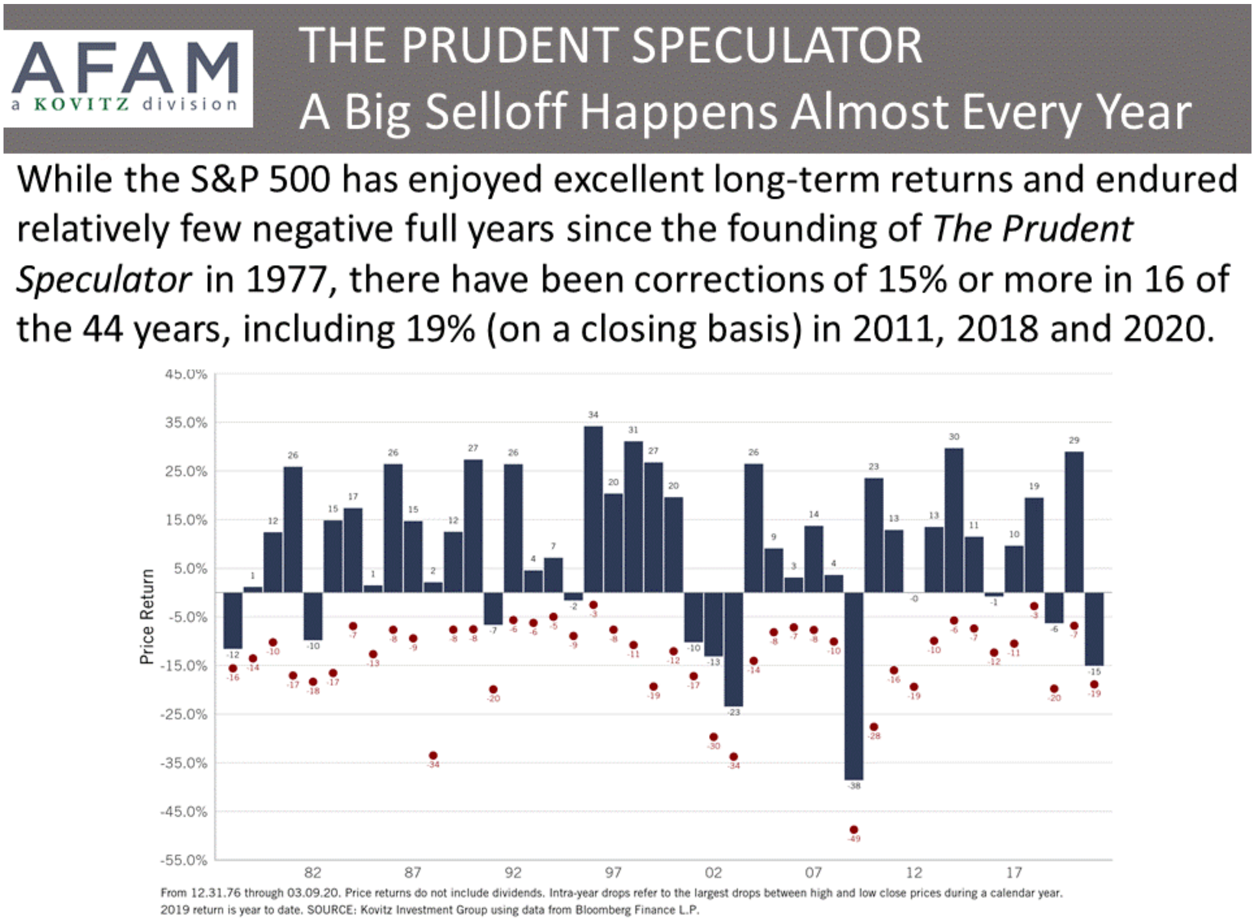
THE PRUDENT SPECULATOR
Keep Calm and Carry On

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.

S&P 500 One-Day Plunges	Date	S&P End Value	1-Year Later	3-Years Later	5-Years Later	7-Years Later	10-Years Later	Event thru Present
-20.5%	10/19/1987	224.84	23%	39%	85%	109%	320%	1122%
-9.0%	10/15/2008	907.84	21%	35%	87%	123%	203%	203%
-8.9%	12/1/2008	816.21	36%	52%	121%	158%	238%	237%
-8.8%	9/29/2008	1,106.39	-4%	5%	53%	70%	163%	148%
-8.3%	10/26/1987	227.67	24%	34%	84%	103%	314%	1106%
-7.6%	10/9/2008	909.92	18%	27%	82%	121%	217%	202%
-7.6%	3/9/2020	2,746.56						
Price Changes Only								
Does Not Include Dividends		Averages:	20%	32%	85%	114%	242%	503%

Source: Kovitz Investment Group using data from Bloomberg. As of 3.9.20

…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,…



…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.

THE PRUDENT SPECULATOR
Volatility is Normal: Value/Divs Win Race

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Selloffs, downturns, pullbacks, corrections and even Bear Markets are events that equity investors always have had to endure on their way to the best long-term performance of any of the financial asset classes.

Advancing Markets

Minimum Rise %	Average Gain	Average # Days	Count	Frequency (in Years)	Last Start	Last End
20.0%	110.5%	936	26	3.5	3/9/2009	2/19/2020
17.5%	67.0%	581	38	2.4	12/24/2018	2/19/2020
15.0%	66.7%	564	44	2.1	12/24/2018	2/19/2020
12.5%	44.1%	336	71	1.3	12/24/2018	2/14/2020
10.0%	34.6%	245	97	0.9	12/24/2018	2/19/2020
7.5%	23.5%	149	154	0.6	12/24/2018	2/19/2020
5.0%	14.7%	73	300	0.3	8/14/2019	2/19/2020

Declining Markets

Minimum Decline %	Average Loss	Average # Days	Count	Frequency (in Years)	Last Start	Last End
-20.0%	-34.3%	371	25	3.6	1/6/2009	3/9/2009
-17.5%	-30.0%	217	38	2.4	2/19/2020	3/9/2020
-15.0%	-28.1%	189	44	2.1	2/19/2020	3/9/2020
-12.5%	-22.6%	138	71	1.3	2/19/2020	3/9/2020
-10.0%	-19.5%	102	97	0.9	2/19/2020	3/9/2020
-7.5%	-15.4%	65	154	0.6	2/19/2020	3/9/2020
-5.0%	-10.9%	37	300	0.4	2/19/2020	3/9/2020

From 02.20.28 through 03.09.20. Price return series. We defined a Declining Market as an instance when stocks dropped the specified percentage or more without a recovery of equal magnitude, and an Advancing Market as in instance when stocks appreciated the specified percentage or more without a decline of equal magnitude. SOURCE: Kovitz Investment Group using data from Bloomberg, Morningstar and Ibbotson Associates

LONG-TERM RETURNS

	Annualized Return	Standard Deviation
Value Stocks	13.2%	25.8%
Growth Stocks	9.5%	21.4%
Dividend Paying Stocks	10.6%	18.0%
Non-Dividend Paying Stocks	8.8%	29.4%
Long-Term Corporate Bonds	6.1%	7.6%
Long-Term Gov't Bonds	5.5%	8.5%
Intermediate Gov't Bonds	5.1%	4.3%
Treasury Bills	3.3%	0.9%
Inflation	2.9%	1.8%

From 06.30.27 through 12.31.19. Growth stocks = 50% Fama-French small growth and 50% Fama-French large growth returns rebalanced monthly. Value stocks = 50% Fama-French small value and 50% Fama-French large value returns rebalanced monthly. The portfolios are formed on Book Equity/Market Equity at the end of each June using NYSE breakpoints via Eugene F. Fama and Kenneth R. French. Dividend payers = 30% top of Fama-French dividend payers, 40% of middle Fama-French dividend payers, and 30% bottom of Fama-French dividend payers rebalanced monthly. Non-dividend payers = Fama-French stocks that do not pay a dividend. Long term corporate bonds represented by the Ibbotson Associates SBBI US LT Corp Total Return index. Long term government bonds represented by the Ibbotson Associates SBBI US LT Govt Total Return index. Intermediate term government bonds represented by the Ibbotson Associates SBBI US IT Govt Total Return index. Treasury bills represented by the Ibbotson Associates SBBI US 30 Day TBill Total Return index. Inflation represented by the Ibbotson Associates SBBI US Inflation index. SOURCE: Kovitz Investment Group using data from Professors Eugene F. Fama and Kenneth R. French and Ibbotson Associates

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.

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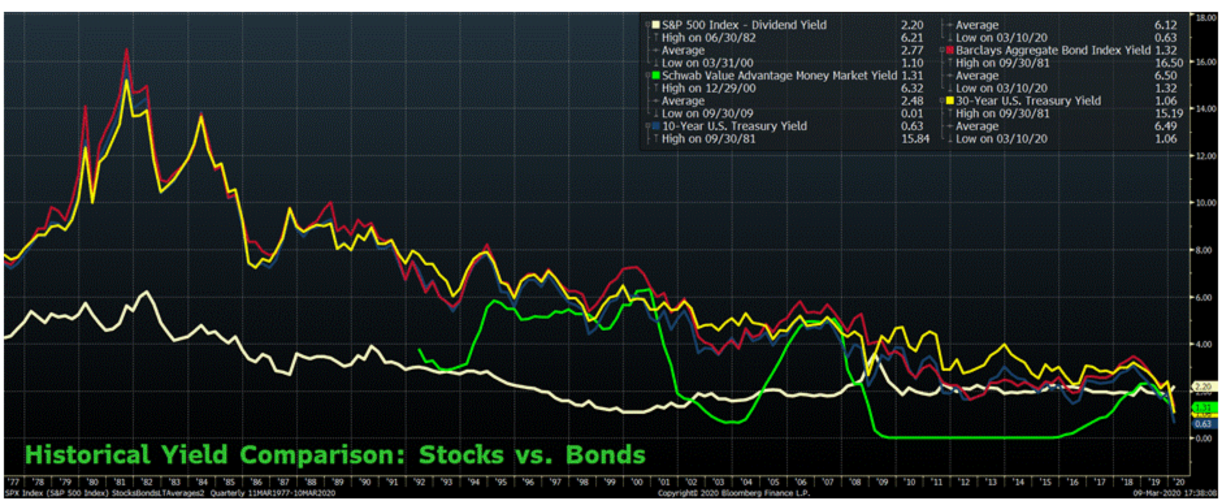
THE PRUDENT SPECULATOR
Equity vs. Fixed Income Yields

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!