July 2020

We often find ourselves describing market volatility as a rollercoaster ride. The ride starts off slow enough as you go ever higher but then suddenly plummets dramatically lower, only then to recover and soar into the sky. Up, down, up, down, only to end exactly where you started, but perhaps feeling a little nauseous..

The S&P started the year at 3258. On March 23rd, it hit a low of 2237 (a plunge of over 30%) only to recover *as of this writing* substantially all of its dramatic March decline. The ride was bad enough, but if you tried to get off the ride, the outcome would have been disastrous. According to Fidelity, an estimated 30% of investors over 65 liquidated 100% of their equity positions in March and have been sitting on the sideline waiting for things to get better. The people that can least afford to lose their principal sold during the March lows and have not been back since, and unfortunately did not participate in the recovery.

As most of you are aware, we were fortunate enough to see the warning signs and were able to avoid some of the volatility. On the average the portfolios were down 30%-50% less than the major index's and as the markets have recovered so have we.

Looking forward, the deep economic pullback (depression) that some experts had predicted has not materialized. The US still remains in a recession even though economic conditions have begun to improve. As most states continue to ease restrictions, some states have had to impose new restrictions. Covid remains a significant obstacle to future economic growth. Until a vaccine not only gets approved but also becomes part of main stream medicine, we will not return to normal economic activity. The markets that generally are forward looking are willing to accept a current outlook of weak corporate profits in return for what the promise of a vaccine and extraordinary fiscal and monetary policy can bring to the future. Even though the U.S. economy remains in a vulnerable state it remains likely that it continues to improve as individuals and corporations adapt to this "new world" of doing business. Daily swings in the markets would indicate extreme volatility but the facts are we have been stuck in a trading range for approximately 60 days. The S&P close at 3232 on June 8th. As of today, July 30 the S&P is trading at 3241. The numbers would indicate the markets have been "calm", but we know otherwise. Daily economic, political and global news (noise) pushes markets up or down but overall we are in a wait and see mode.

Still, it is understandable how many investors remain skeptical about just how quickly the markets have recovered from the March lows. Many of our own clients are asking "how is it possible with the virus and economic news so bad that the markets have recovered?" The answers can be complicated – several quick thoughts:

1) If you remove from the S&P 500 five stocks (Amazon, Netflix, Apple, Google, and Facebook) the balance of the remaining 495 companies are still down (negative) for the year an average of 15% and many well-known companies are down over 50% (Boeing, Wells Fargo). Not all stocks have recovered equally.
2) Enormous stimulus out of Washington has pumped trillions of dollars into the economy to keep it afloat while we wait for the recovery.
3) Maintain faith, even in the dead of winter in the middle of a snow storm. We know that "this too shall pass". Spring will arrive with sunshine, flowers and better days ahead.

Still, given the resurgence of Covid in Florida, Texas and California (among other states) which represent significant economies in themselves, caution is understandable. With added pressure of China conflict, not to mention a presidential election around the corner, a more cautious near term view seems warranted. We have faith that this, like so many past crises shall pass. We have maintained from the start of this crisis that the full recovery will take longer than some of the "experts" have said.. Although we are less defensive in our allocation than earlier in the year, we believe an overall cautious posture is still prudent. Opportunities (market dips) will surely come our way and we can use our liquidity to add to our equity positions.

In conclusion, we hope you and your families are healthy and safe. Please stay safe and don't let your guard down. As always we thank you for your loyalty, friendship and well wishes over these past difficult months.

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