John Dessauer Investments, Inc.

John Dessauer's market review and update as of Wednesday March 4, 2020

Wow…This is one heck of a correction. Stock market corrections are far from unusual. But this one is scary because it developed so quickly. On February 19, stocks were at record highs and looked stable, reacting rationally to news of the coronavirus. Nine days later the S&P 500 stock index had suffered its fastest-ever 10% decline from an all time high. Fear that the coronavirus might become a global pandemic, disrupting the global economy was the reason. Granted, the coronavirus is a new threat with lots of unknowns. As yet we don't have a vaccine. But the panic looks to be an overreaction based on past economic tragedies. So far, the coronavirus has killed less than 3,000 people, mostly in China. By comparison the Sichuan earthquake in May 2008 killed 69,000 or more without leaving a noticeable trace on Chinese economic growth. Closer to home Americans seem to have forgotten that the 2017-2018 flu infected 45 million and killed 61,000 Americans. And forgotten for the moment is that 30,000-40,000 Americans die each year from the flu.

About 20% of those infected with the coronavirus are severe cases and require hospital care. The death rate is 2%. And we, as yet, do not have a vaccine or a proven antiviral treatment. Can it get worse? Of course it can, because we don't know enough about this new virus. On the positive side, the world has never responded as rapidly to a disease as it has to the coronavirus. Medical researchers at pharmaceutical companies around the world are pouring resources into finding treatment and a vaccine. Odds are they will find both sooner than now expected.

As for the stock market, Kevin Matras at Zacks Investment Management is probably right when he says: “Will there be more downside? It’s possible. But the current correction is not that far off from the average. And a correction is all I think it is.”

Kevin points out that over the last 40 years there have been 13 corrections (defined as a pullback between 10% and just under 20%) prior to this one. The average size is about 14.5% and the average length is about 3.5 months. This correction took only a few days and is down about 13%.

“This bull market is nearly 11 years old (the longest bull market is 12.3 years) and including this one has had 5 corrections. “The only reason why this one feels so scary is because it happened so fast, and it’s coinciding with a health scare - the coronavirus. But quite frankly, they all feel scary. The last one we had was in Q4 of 2018. Remember that one? Everybody was calling for a recession because of the so-called trade war and tariffs. Total nonsense. Yet the correction happened anyway. But so did the epic rally that followed.”

Economists are busy trying to calculate the economic hit to the global and U.S. economies. The problem is that the large measures that China has taken to stem the spread of the disease are unprecedented. Never-the-less economists at Goldman Sachs project a 0.8% point hit to U.S. annualized growth in the current quarter from reduced tourism, exports and supply chain disruptions, with most of that reversed by year-end.

The bottom line is that estimates of the disease’s economic impact are basically educated guesses.

The U.S. economy is in good shape, with real growth, unemployment at a 50-year low, household income at a 20-year high and consumer sentiment near record highs. And

the two new record trade deals with our top 3 trading partners are likely to usher in a new wave of growth and prosperity.

Jason Zweig writing for the *Wall Street Journal* on February 26 has this to say about the stock market's plunge: "When markets crumble, the culprits usually aren't the smallest investors, but the biggest."

As data emerges, I am sure we will find out that the old culprit, program trading, is what pushed stocks down so rapidly. A Vanguard study of typical clients found that individual investors have an annual turnover of roughly 10%. By contrast mutual fund managers trade at more than six times that rate.

According to Jonathan Krinsky, chief market technician at Bay Crest Partners, trading volume on the SPDR S&P 500 ETF Trust, an index tracking fund that's one of the most-traded securities in the world, jumped 300% above average on Thursday in the midst of the stock market's plunge. The pros often chase the market's current trend too far and too long.

Another contrary indicator is that the rally has been by acclamation the most hated ever, one in which traditional stock mutual funds suffered significant outflows. Money flowed out of stock funds and into bond and money market funds as stocks kept rising to their February 19 record high.

Another interesting fact about the pros and their trading habits is that once the stock market starts down, portfolio managers who owned-then-sold the most popular stocks won't be punished as badly as those who made unorthodox picks. John Maynard Keynes said: "Worldly wisdom teaches that it is better to fail conventionally than to succeed unconventionally."

At this point no one knows how far the fear over coronavirus will extend or how much stocks will fall in response. However, as Kevin Matras says: “When the worst of this outbreak is finally behind us, stocks are expected to soar as pent-up economic demand is unleashed.”

Our best strategy is to be patient and wait for the fear to subside.

I will have the next market review and update one week from today on Wednesday March 11, 2020.

All the best,

John Dessauer

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