John Dessauer Investments, Inc.

John Dessauer's market review and update as of Wednesday March 18, 2020

On Thursday March 12 the Dow Jones Industrial Average plunged. The headline at the end of the day said: "Dow down 10%, biggest one-day drop since 1987."

After reading that I said to myself, "1987, I was there." In fact, back then I was still writing my Newsletter "*Dessauer's Journal.*" So, I dug out copies of my old newsletters. What I wrote in 1987 seems pretty much on point today. In 1987 fear of inflation and rising interest rates triggered the stock market sell-off. This time it has been fear of the covid-19 virus. But fear is fear, and the aftermath is likely to be the same or similar. Here is what I wrote in the November 4, 1987 issue:

"THE BULL MARKET, LIKE SO MANY INVESTORS, HAS BEEN BRUISED AND BATTERED, BUT NOT DEFEATED.

This is a time for taking sides. All markets recover, sooner or later. Even the Great Crash of 1929 was punctuated by periods of sharp rises in stock prices. In the first half of 1930 U.S. stock prices rose 50% even though U.S. corporate profits plunged. From the depths of the depression in 1932 the Dow rose from 41 to more than 100 in 1933.

The U.S. stock crash on Monday, October 19, was worse than the crash of 1929. In two trading days the Dow lost considerably more than in any similar time period in this century. The financial and psychological damage in past market plunges was strung out over months or at least weeks. The old battles between optimists and pessimists gradually wore down the optimists. This time the anxiety levels were so high before the crash that once it began everyone was instantly converted to a pessimist. Investors' sentiment swung to an extreme so fast as to leave doubts and questions about the process of recovery."

Fast forward to today's virus crash and count the similarities. Kevin Matras from Zacks Investment Management had this to say on March 13, the day after the big Dow plunge: "For perspective, this is the fastest we've ever seen a bull market turn into a bear."

Back in 1987 I wrote: "The economic news immediately following the Great Crash of 1987 could not have been better. The U.S. economy grew faster in the third quarter than expected in spite of nine months of tight money and rising interest rates. The strength of the U.S. economy in the face of so much financial adversity is as unprecedented as the stock crash itself. The two stand in stark conflict, pulling in opposite directions."

On March 13, 2020, Kevin Matras wrote: "But it is important to remember that our economy is strong, with 50-year low unemployment and 20-year high in household income, near record high in consumer confidence and near record lows in interest rates."

Part of the reason there is so much fear of pandemics is the history of Europe and the "black death." In four years between 1347 and 1351 the Plague (black death) killed one-third to two-thirds of Europe's population. Covid-19 is not going to have such a devastating impact today. In medicine alone there have been remarkable achievements since the 1300s. The world is far better prepared to deal with a pandemic than it was back then.

But the shocking fact for all pessimists is that the "black death" was not followed by a prolonged economic depression. On the contrary it was followed by a long period of higher incomes and economic prosperity. In the short-run covid-19 will have a negative impact on world economies. And, at this point the full extent of the damage is unknown. But so far, the U.S. economy is humming along. In the week just before the Dow's March 12 plunge, claims for unemployment insurance fell for a second straight week. These data points indicate that covid-19 has not yet hit the U.S. labor market.

As of the market's close on March 12, the Dow was down 28.26%. Looking at the top 10 worst bear markets (using the Dow) following the Depression shows that it declines on average 39.27%. If history is a guide then we may have now seen the bottom or we are at least close to it. The really good news from history is that the rallies that followed the big bear markets were even bigger than the declines. Within a year after a bear market, stocks surge on average 44.74%. And go on to gain 66.34% by year 3.

U.S. liberals, especially Bernie Sanders' followers should pay attention to the efforts being made to combat covid-19. As the editors of the *Wall Street Journal* put it: "Liberals these days often treat the rich as if they're the coronavirus, so it's worth highlighting how many affluent Americans are using their wealth to stop its spread—not that they'll get much credit for it.

The Bill and Melinda Gates Foundation along with Mastercard's Impact Fund and the British health philanthropy Wellcome on Tuesday announced a $125 million project to accelerate coronavirus vaccines and treatments. Gates Foundation President Trevor Mundel says the idea is to have this "incubator" finance drug development before government funds become available.

The Gates-funded project aims to screen thousands of medicines within five to six weeks to identify those that are most likely to be most effective.

By the way, Mastercard in 2018 dedicated 20% of its savings from tax reform to the Impact Fund, which is now helping fight the coronavirus.

Private wealth broadly benefits society in ways government spending couldn't, even if the rich were to pay more in taxes."

The idea that government bureaucrats can achieve social goals by redistributing private wealth has been proven to be absurd over and over again throughout modern history. The covid-19 virus and all the travel bans are scary. But the political shift to the left is scarier. My thanks to the editors of the *Wall Street Journal*. They do a great job exposing the fallacies of the left and uncovering the facts about economics and private wealth.

I will have the next market review and update one week from today on Wednesday March 25, 2020.

All the best,

John Dessauer