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DM MARKET UPDATE II
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STOCKS FALL FURTHER AS COVID-19 REACTION LEAPS FROM CONCERN TO PANIC

Each comment on the state of the market we've published in recent weeks seems to have become obsolete in just a few trading sessions; nonetheless, in our desire to help clients and readers steer through this difficult period, we'll give it another try. To put the current market debacle into proper context, and to ensure that a potential short term dislocation isn't cemented into a long term portfolio mistake, it's useful to break the investing time horizon into interim phases:

Short term – *markets are grasping at the unknown*

If it was ever in doubt, the well-worn axiom that 'markets hate uncertainty' has been unequivocally validated over the past month. From vacant hotels, to empty airlines, to shuttered restaurants and plunging consumer demand for just about everything besides toilet paper and household bleach, it's become impossible to gauge the state of the economy and corporate earnings, or rather how deeply both will contract. Even more importantly, there is not yet a sense of when we'll reach the beginning of the end of this catastrophe, which most agree will mark the inflection point from which markets can begin to regain lasting traction.

If you don't require capital from your portfolio in the next 12 months and haven't invested on margin, this is probably not the time to be crystallizing equity prices. On a positive note, the rate of insider stock buying (i.e. executives purchasing shares in their own cos.) hasn't been this high since November 2008 and March 2009. These months are significant because they respectively mark the point that the greatest number of stocks in the S&P 500 reached their bottom and the moment that the index itself found its sub-prime crisis nadir.

Medium term – *economic damage will be done*

Unquestionably, the economic harm inflicted by COVID-19 and our necessary response to its proliferation will be significant. The question isn't whether there will be loss, however; it's whether the decline in the real economy will be greater or less than what is currently being priced into stocks. No one can predict how long it will be until we're able to begin resuming normal life and the wheels of commerce start to turn again – *as bleak as things seem at the moment, though, this **will** come to an end.* China's economy is restarting (Apple has now reopened all of its stores there, while Hormel Foods just announced that its three Chinese processing facilities are fully re-staffed) and vaccine development is proceeding at a breakneck pace, with the trial process skipping the animal stage and going straight to humans. As well, if our efforts to 'flatten the curve' through self-isolation are even partially successful, it's almost certain that actual economic contraction will be less severe than what markets seem to be predicting.

Long term – *"you make most of your money in a bear market, you just don't realize it at the time"*

Legendary investment manager, Bill Miller, was interviewed on business television this week and provided the following quote: "*There have been four great buying opportunities in my adult lifetime. The first was in 1973 and '74 (oil price shock), the second was in 1982 (inflation and interest rate spike), the third was in 1987 (Black Monday market crash), and the fourth was in 2008/09 (sub-prime crisis). And this is the fifth one.*" Each of the events listed by Mr. Miller was gut wrenching in its own way and left investors questioning both their financial futures and the soundness of the stock market itself. Everyone who invested, or stayed invested, during those darkest days, however, was eventually well rewarded.

Though each market plunge is unique in its own way, this one is probably different by the degree to which it has been mirrored in the real economy. To be sure, many businesses won't survive the COVID crisis and more still will look very different on the other side. We're confident, however, that the stocks which will bounce back quickest in the eventual recovery are those with low or manageable debt loads and business models that provide pricing power for the goods and services they sell. Our equity process has always emphasized these attributes and the portfolio adjustments we've made in recent weeks have been aimed at extending them even further. Feel free to call or write if we can answer any questions or if you'd just like to chat.

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