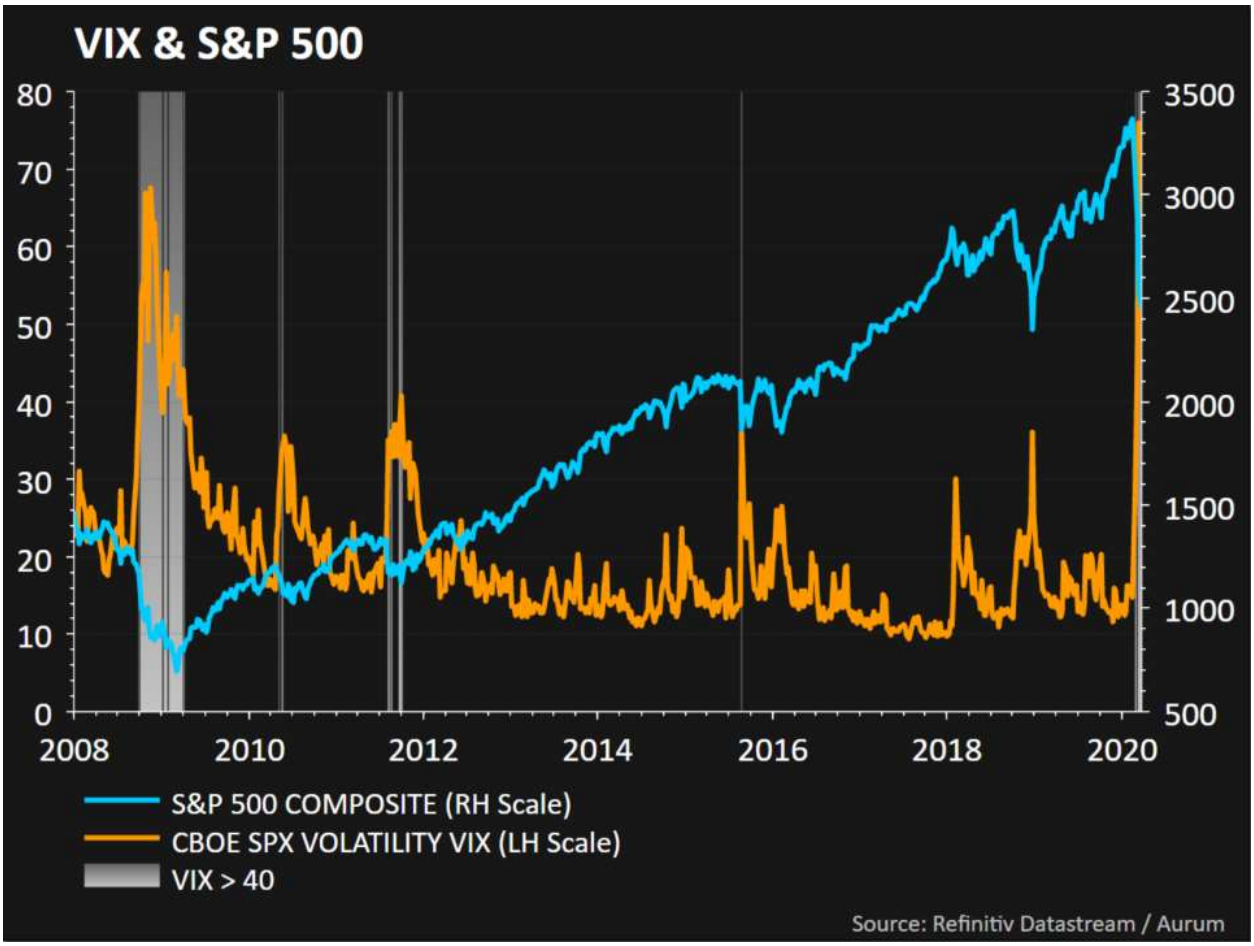
Here's Your Game Plan

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Last week we tried to put the coronavirus (COVID-19) pandemic in context. This week we talk markets and what investors should be thinking about.

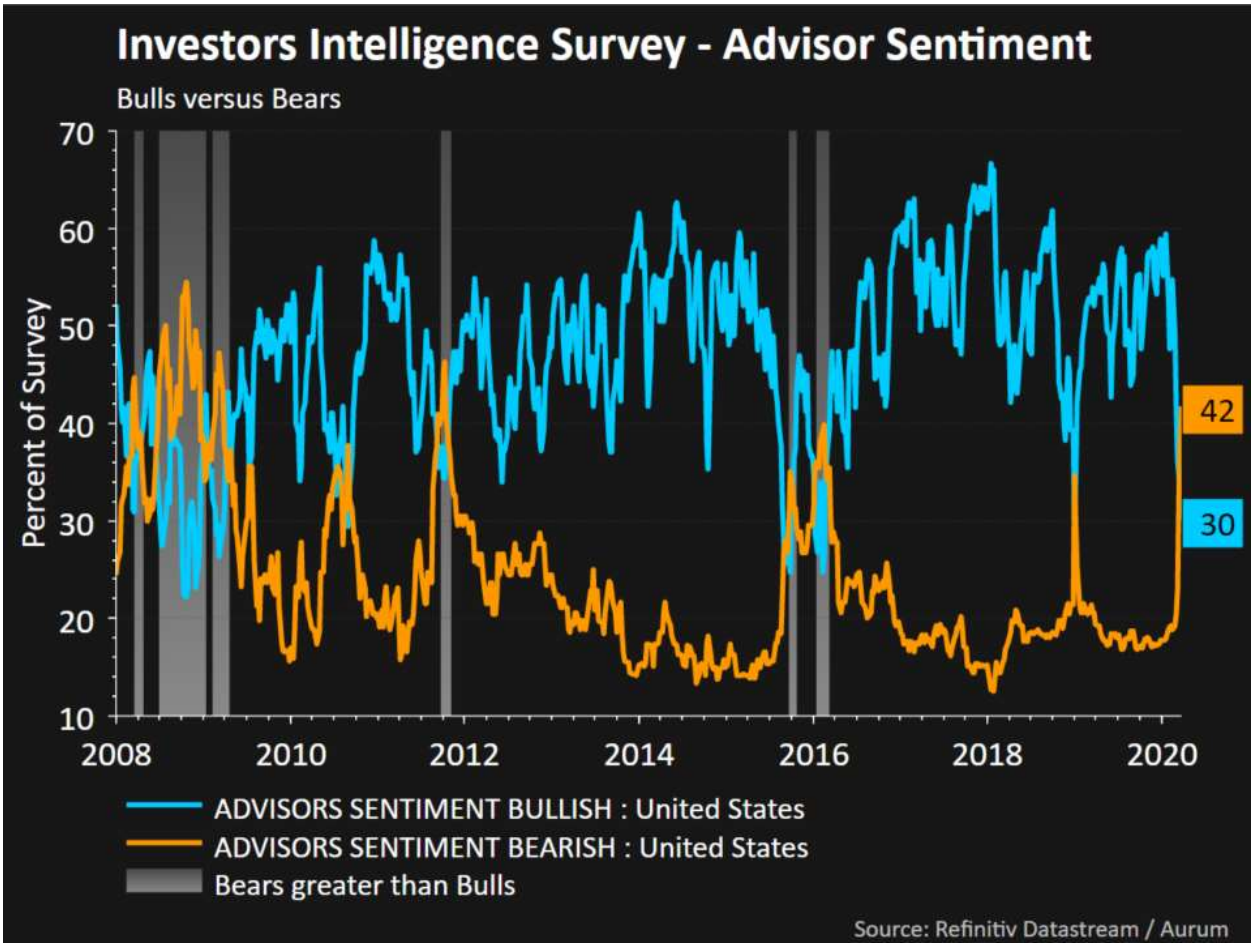
First, let's discuss how rare these types of market moves are. This is one of the fastest falls in prices ever. The day to day volatility moves in stocks is huge. The VIX represents the market's expectation of 30-day forward volatility. It is often quoted as the 'fear index.' In other words, when the VIX is high, the market perceives a wide range of outcomes. It reached a level of 80 in the great financial crisis in 2008 and just again this month.




Notice each of the periods over 40 (in grey vertical bars) coincided with what were long-term buying opportunities. These were all around troughs in prices for the S&P 500 Index.

Humans are not designed to see our resources go up and down in value on a computer screen. We are emotional beings and feeling scared is normal. But recognizing that everyone else is scared shows that this view is consensus. And being with the consensus is not always right.

In fact, a survey of investment advisors shows that more advisors are negative on the market than positive. We call this recency bias. The difference between bulls and bears in is in the 4th percentile. In other words, advisors were more positive on the stock market 96% of the time in the last 12 years than they are this week. The chart below shows bulls in blue (positive on the market), which have fallen to 30% this week. Bears are in orange (negative on the market), which have risen to 42%.




When we see unemployment rates expected to be so high and words like depression thrown around, can it get any worse? Is there a possibility that things become slightly less bad? Can the narrative change?

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Over the previous weekend, my friends at Marcum were putting together a presentation to help small business owners navigate this new world. They asked what I would tell investors to do. Below were my responses in bold, with an expansion of thoughts on each.

**It is too late to de-risk portfolios, unless you are a leveraged investor or need cash.**

Hopefully you are never a forced seller. This means selling indiscriminately due to debt or panic. We want to be on the opposite side of this, buying assets by thorough analysis that someone is selling for uneconomic reasons. Last week, many hedge funds were forced out of positions due to leverage. This contributed to the volatility.

**There are huge opportunities in the municipal bond market currently.**

This one is moving fast due to the forced selling talked about above. Outflows from municipal funds were a record last week. In turn, this created value. The yield per year of duration reached the highest level in the past ten years. We noticed discounts on municipal ETFs and capital is being called from a long-time manager.

**Corporate Credit markets are in the cheapest 5% of history.**

This should be an area to consider adding. Cheap prices can always get cheaper, so buyer beware. We are just entering the downgrade cycle by credit agencies. Investors are beginning to price in these defaults.

**Scaling into equity positions is the prudent approach. No one ever catches the bottom, not even professional investors.**

Timing markets is hard. The cliché is said for a reason. In the moment, you never know if prices will go lower or higher. A value investor at least has a good sense if they are paying 60, 70, or 80 cents for something that should be worth a dollar. It requires patience and the willingness to be wrong in the short-term, for long-term gains. Framing lower prices as the ability to earn higher future returns is a better way to think.

**If you have a view that this is a depression, then all bets are off on pricing.**

Yes, the news and economic data are bad. It will likely persist for some time and we should prepare ourselves for the volatility. But we know what Yogi Berra said, “It's tough to make predictions, especially about the future.”

If you didn’t have perfect foresight previously for the direction of markets or this pandemic, what gives it to you now? I certainly do not claim to have it, however, it is unnecessary and usually unrepeatable anyways.

**A policy error both on the healthcare front and fiscal stimulus plan are the biggest risk factors.**

There are currently a wide range of outcomes, however, there are securities that are pricing in very draconian scenarios. This is a tough balancing act for policy makers, and we must acknowledge it. Even after passing the fiscal bill, implementation is important.

**There are reasons to be more positive when looking at the data, possible drug treatments, latitude levels of infection, etc.**

But we typically read and follow what agrees with our priors, it is how we are built. Betting against human ingenuity has been a loser for a long time. Focus on your process, filter out the noise. If you need a process, reach out to us.

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In summary, there are many other aspects of the financial planning process investors can currently focus on besides the market direction. Tax loss harvesting to offset against future gains is important. Rebalancing back to the target equity weights based on your financial plan adds value over time. Think about converting your traditional IRA to Roth IRAs. These are all within our control and process.

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