STOCKBOY

Columbia Asset Management, L.L.C. *Spring '20; Yr. 28, Issue I*

Well, THAT wasn't on the Radar

The Black Swan Flyeth

After an 11 year bull market, I was ready for a bear to show up sooner rather than later. However, I had no firm idea what would finally be the catalyst for a falling market as interest rates stayed low, the economy seemed healthy and alternatives to stocks were not compelling.

Then came COVID-19 – a definite black swan. At the beginning of the year I read a number of market projections by the 'experts' for 2020; many were positive, a few were negative, but none, of course, predicted a pandemic would sweep over the United States and bring our economy to a crawl just two months later.

This is a terrible thing on both a public health level and an economic one. However, we will bounce back. History has shown it – from WWI and WWII, to 9/11, to the Great Depression, the Great Recession and even other pandemics (including the Spanish flu that was much more deadly and came on the heels of the end of WWI).

Given all this, what is the appropriate investment approach to this type of market? My take is that you shouldn't sell, except perhaps to lock in some tax losses in taxable accounts for future use and benefit. Instead at least sit tight, even though it's far from enjoyable to watch your investments drop, sometimes precipitously, and do little or nothing about it. A good investment plan factors in a bear market before it happens – not 'when' (because no one can accurately predict these things) but definitely 'if' there will be a bear market.

I prefer, in fact, to step in and buy great companies that become reasonably priced during these times. In every *Stockboy* fund account, I have cash ready to put into the market (particularly huge amounts in the Contrafund account and the Phoenix Phund) and will start to put it to work now.

I think it makes sense to incrementally add that cash to the market, as opposed to all at once, because we won't know where and when the bottom will be until it's long passed. This way, our timing doesn't have to be exactly right – which is next to impossible to do anyway.

I recall as I was buying (or adding to) high quality stocks for clients in March as the markets fell, I'd say both to myself and sometimes out loud, "I'm not sure if these will be good trades in a week or two, but I'm pretty confident they will be really good buys in a year or two!"

Always a Caveat

I wrote in the last *Stockboy*, as we moved into 2020, that: "I believe if all holds generally 'as is', then the market will likely advance in 2020 as statistics suggest (though likely not nearly to the degree of 2019). However, we should know by now that the notion that everything will continue to hold 'as is' is unlikely. Something will conspire to change our expectations and that's okay. Those with experience know the market future cannot be accurately predicted, especially in the short term."

And it is okay, though it doesn't feel that way now, for obvious reasons. If we only look at this from an investment standpoint (and for the purposes of this newsletter, that probably is what I should keep it to), it will be okay….with time. History has shown us, time and again, that the market will have these downdrafts – unpredictable in terms of timing, severity and duration. If they didn't lurk, then everyone would have every last dollar in the stock market to enjoy its growth. The market does grow, quite well, over the long term. However, investors must make peace with the bear market realities from time to time – they usually only derail you if you were taking too much risk to begin with or you don't stick with a game plan that makes sense before and during the bear.

Kroger is the New Gold

As the market wildly gyrated with the fallout from COVID-19, it was hard not to pay close attention to the drops and rises, often 1000 points or more within hours.

Oddly, one stock seemed to regularly zig when the others zagged – Kroger, a reasonably well-run grocery that investors haven't been excited about for years.

Gold, often considered a port in the storm in terms of value, usually plays this role in the markets but with our COVID concerns, apparently Kroger is the new gold. During hard times people, and investors, reach out for things that seem necessary and immovable and it looks like Kroger represents that at the moment.

Kroger is not a flashy stock and for years has just bumped along. In fact, its stock price is lower now than 5 years ago (mostly during a bull market). However, investors seem to think it's just great as an investment currently.

To me, recent Kroger investors aren't long term investors – they are reactors. After the pandemic recedes and our lives return to some form of 'normal', Kroger will fall back to its normal place in the investment world – a decent but not flashy, nor fast-growing company. When its 'port in the storm' quality starts to fade, likely so will Kroger's stock price. Investor emptor!

Fear Puts Theories in the Trash

Many market theorists confidently state that the stock market is efficient and all new information is quickly factored into the market's stock prices.

During March the market regularly would swing up or down 1000 points or more in a few hours. Companies perceived to be most impacted by the virus fallout (airlines, hotel, travel and even oil stocks) would see their stocks rise or fall by 10-20% daily. There is no way the value of these companies rationally changed that much that quickly. Fear and speculation took over, as they tend to do during unexpected and scary events.

I believe the markets are efficient over time and when markets are calm; but when fear takes over, prices can detach easily from rationality. During these times (bear markets), Warren Buffett states, the market becomes a wealth redistribution system between the patient and impatient. Be patient during these times--it sets you up well for the future.

Own Companies, not Stock

During tough times in the stock market such as now, it's important and helpful to remember that ultimately, you are investing in companies and not just stocks. Though the stock price of Apple and Disney and Nike and Starbuck, amongst many others, may fall notably, it is reassuring to realize that you own a small slice of those businesses and they are not only not going to go away, but they should bounce back nicely when our economy starts to recover. This allows you to be a longer-term investor. Looking at stock prices every day can be disorienting and distracting. If the changing value of your house was displayed on your roof in neon every day, you'd start to focus on your home's daily value and not simply know that, the value of houses usually goes up, sometimes a lot, and time is your friend.

BrianWeisman, *CFA,CPA,CFP,CMA*
(734)6651454brian@columbiaasset.com