STOCKBOY

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Recovery? Yellow Light Short Term, Green Light Long Term

Bouncing Back?

What the first quarter took, the second quarter has largely given back….at least in general. Though Covid-19 is still an unknown factor in the coming months and the resulting societal changes have been putting downward pressure on the economy, the stock market has recovered more quickly and reflects a more optimistic tone than what the headlines read or what is observed on less crowded streets and parking lots around the country.

Why is this? Part is that the stock market is usually forward-looking and thus anticipates what will be happening, good or bad, in the future and not necessarily what is happening now. Also, though certain businesses and industries have been heavily impacted by the shut-down(s), others continue to do fine or even see sales increases. Further, with the Fed reducing interest rates to basically zero, investment alternatives to the stock market are not very compelling and make the stock market a more desirable investment.

Not All Boats Rise

Though the market averages have moved back up toward level for the year, the performance of individual stocks has been quite varied. The monster tech leaders such as Google, Microsoft, Apple, Amazon, etc… have generally led the way and are up nicely for the year. Other stocks (mostly value stocks, even the blue-chips) and certain sectors of the market are still notably down year to date, including energy, banking, telecom, many manufacturing companies and REIT's. In my opinion, these less fortunate stocks, particularly those which are financially strong and market leaders, are the most compelling stock opportunities currently.

A Year From Now….

I believe in a year or so, it is likely the Covid-19 issues will largely have run their course and we, as a society, will have moved much more toward a version of 'normal'. Historically this has been the case for pandemics, even without vaccines being introduced. Investors should factor this reasonably likely future into their thinking and strategies, along with what is happening today. When I look to buy a stock, I think about how it may be impacted by current information as well as what I believe is likely to happen in the near future and further out. I also factor in that I could be wrong in my forecasting.

For example, companies such as Marriott, American Express, Delta and Disney should be doing much better in a year or two than they are now. Pre Covid-19, they were market-leading, well-run companies in growing industries and they'll ikely still be growing, profitable industries when we return en masse to taking vacations and traveling. Yes, they are struggling now and their sales and profitability have been crushed. But they haven't lost their competitive position nor their solid culture and prospects to do well over time.

The *Phoenix Pfund* holds a number of Covid- impacted companies (we bought Cedar Fair, Chevron, Disney, Marriott and Stryker on the last day of March), as does the *Stockboy* fund, and I look forward to their recoveries in coming months, even though the timing isn't fully known nor their recoveries 100% assured. I believe it's worth the risk to buy before the smoke clears and prices are still low.

Who Are the Smart Ones?!

The *Wall Street Journal* recently reported that almost 95% of Vanguard retirement account investors made zero trades between January and April of this year. Given the market's giant and sometimes scary gyrations between February and May, this is a telling statistic. It appears the typical 'retail' investor has been smart, patient and long-term focused.

Thus it seems the market's volatility back in the spring was due to reactions by institutions, algorithmic trades and speculators…..which often get things wrong and I'm betting they generally did again. Hedge funds certainly fall in this category and another of its titans has 'retired' due to poor performance – John Paulson, who gave back investor money and will now simply manage his own shockingly large pile of money, accrued by years of heavy fees from institutional money seeking returns they had convinced themselves made sense to pursue.

Buying When Scared

I've been in the investment advisory business for almost 30 years and have experienced three very bad markets (2000-2002, 2008-9, and earlier this year). During each market fall, when things looked their most gloomy, it was a great time to buy stocks. In retrospect, it seemed the obvious move, but it doesn't look or feel that way at the time. I had a number of clients that were comfortable with me adding to their stock holdings during that scary time. Others simply wanted to sit tight and ride it out. Only a few were very concerned that the market would continue to fall and wanted to sell.

After markets have bounced back, it's easy to play the 'would've/should've' game – but while it's happening it's not. Fear takes over and you lose long term perspective.

Often it is the very time that it seems particularly painful to buy (or add to) a stock that has badly fallen where you end up making the most amount of money. Think of buying Boeing, Delta or Marriott (or most any of the oil companies) during late March when the market had fallen almost 40% and those stocks had fallen much further. It shows you how much of our natural wiring is flawed for investing purposes – our intuition says 'no' but our brains should say 'yes'. Perhaps this is some holdover trait from our prehistoric days. My goal has been to try to short-circuit this naturally flawed wiring so that I can look to buy when intuition may say 'no', or worse: 'sell'.

Of course, it's important to keep in mind a couple of things when buying during market panics. First, it is best to stick with market-leading companies that likely have the financial strength and market position to see through the tough times. Second, factor in that you won't know the bottom of the market (or a stock's fall) until it has long passed and already recovered to a decent degree. Thus, it's important to not try to time the bottom to perfection – you cannot do it consistently. What I do is buy in increments so that I don't need to guess perfectly when the low has occurred.

This may be THE most important element of successful investing during bear markets– reducing emotion and leaning on tried-and-true approaches to investing over the long run. And no, it's not different this time. The circumstances may be different, but the way to approach the market and investing is the same.

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