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Market Outlook:

Would you rather be right, or...?

As I've written in previous missives, we are living in unprecedented market conditions. Of course, the Corona virus scare sent shockwaves throughout the financial markets in recent weeks, but consider that valuations and expectations had also been excessively high prior, and it didn't take much to catalyze a major downswing in both. In fact, I would argue that irrespective of strong fundamentals...or perhaps as a result of them....the market was looking for a reason to sell off and recalibrate.

As a result, investors had two complex choices: to stick to the script and remain with their stated long-term allocation decisions; or they could panic sell into the fury and run and hide. The difficulty of quantifying the net result of either choice is gargantuan. Interestingly, the US Federal Reserve (the Fed) rolled the dice last Tuesday by playing their "interest rate card" when, in fact, interest rates are a miniscule part of the problem.

Many of you still remember the mental shock and reverberation of the 2008-2009 "Great Recession"....and perhaps the dot.com crash of 1999, as well.....but in every instance of *exogenous influence* over the existing trend in financial assets all categories break down nearly simultaneously, as occurred last week and the week prior. Diversification, whether by asset class or geography provides minimal safe harbor from the carnage. Bonds, as well as stocks, are negatively impacted. Very few money managers can stem the tide under those circumstances.

The events of recent weeks highlight the inherent risks of all investing, but most notably, doing so without sufficient safeguards to make unforeseen crises palatable, if not manageable. **Be forever cautioned, identifying an investors time horizon is crucial to achieving good results.** If you cannot bear up to the vagaries of the financial markets you *must not* be participating in the game. Period.

However, the key to withstanding the current Corona virus uncertainty is to modify your expectations about near-term performance into a cogent longer-term perspective. This is one reason why I always include cash as an essential allocation element, not just a "default" decision in the absence of anything else. I get asked that question most frequently by clients throughout our annual review, during which I am queried about why we maintain cash reserves "un-invested", as opposed to committing those reserves to securities choices. My clients have come to appreciate the extra level of protection that keeping one's powder dry might afford.

Asset allocation amongst all asset classes, including cash, is so obviously the easiest thing to do, particularly during unanticipated events as we are experiencing right now.

Not just hyperbole

More importantly, a portfolio that is well sheltered avoids the erosion of net worth that a one dimensional account cannot offer.

Despite noteworthy percentage declines in securities that occurred recently, balanced accounts outperformed an all-equity benchmark by a significant degree. **The solution is to maintain an "uncorrelated" scale amongst various investment categories.** An avalanche of bad news makes this a daunting task. Assessing these risks *before* the blitz of negative news is a given, rather than waiting until the alarm arrives.

An illustrious contemporary of mine back in the early 1980's, Joseph Granville, was renowned for being the "Bear of Wall Street". No matter the circumstance....including the encouraging factors which would ultimately lead to the biggest bull rush in history....he advised anyone who would listen to "sell everything" (I am paraphrasing his actual entreaties). He typified the old adage that *"even a broken clock is correct twice each day".*

Joe stuck to his guns until, of course, he was no longer correct anymore. The bull market of the 1980's exploded onto the scene. Then, his fame and notoriety began to recede in the face of rising stock markets in favor of the next flavor of the month television market analyst. Looking at events today, I do not believe we are on the cusp of a bear market or global recession. Instead, we are caught up in a groundswell of dread whose origins have been fomenting for months.

When playing the "long game", the key is to focus upon economics (supply and demand). We know that global data has been improving so that really wasn't as much a part of last week's volatility as was fear and panic. Yes, there are interruptions in the global supply chain and manufacturing as a result of the virus. But now our efforts are to try and find a mental and fiscal equilibrium that will stabilize the trends back to the upside.

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