RBC Wealth Management

Spence Partners
805 SW Broadway, Suite 1800
Portland, OR 97205
Phone: 503-833-5228
Toll-Free: 800-547-4006
Fax: 503-227-0434

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It's déjà vu all over again…
— Yogi Berra

This is the tenth "mini letter" we have written to you in what we labeled as the *Sequester Series*. The idea was, if all of us were to be spending much of our time hiding from germs, hopefully we could look back and feel we accomplished something constructive with that time. But if these shorter letters are starting to be associated in your mind with *infomercials*, should you choose to hit your delete key, we will certainly understand. Sometimes enough can be too much.

With that said, one of the questions we are getting from many of you of late revolves around precedents, in particular Bear Markets. *Is the past prologue and to what extent can our current investing efforts benefit from past experience?* By pure coincidence, this week marks the start of the 50th year of your writer entering the investment business. It may be somewhat surprising to learn that over this period there have been only six bear markets as defined by a decline of more than 20% in the Dow Jones Industrial Average.

Year Started	Percentage of Decline	Duration
1973	-48%	21 months
1980	-28%	21 months
1987	-34%	3 months
2000	-49%	30 months
2007	-56%	17 months
2020	-34%	1 month

The average decline was 41.5% and the average duration was 15.5 months. It probably would be fair to conclude that what made this year's collapse unusual was not so much the percentage of decline but rather the speed at which the freefall occurred: 33 calendar days to be precise. Enough to scare the COVID-19 right out of you.

This leads us to the key question posed above: was Yogi right and can the past in some way be prologue? From a pure spectator's point of view, there is a far cry between 1 month and 30 months. But given that 29-month spread, it certainly does not appear that past experience is helpful in the *timing* department.

What about the percentage of decline? While a bit more homogenous than duration, if an investor had waited to purchase stocks until the time the Dow hit down 30%, on one occasion they would have made no purchases at all and on three occasions the market would have fallen on average another 21% (the definition of a full bear market on top of a bear market). Bottom line? It would appear that most bear markets have a unique set of characteristics that tend to make the amount of decline not very helpful in a predictive sense.

What about selling? *Going to cash*? Based on the table above which encompasses approximately 90 months of bear markets, holding cash in an abundance of caution would have excluded you from 474 months when stocks were performing at least modestly well. You don't need a calculator to figure out those odds. It makes sense to have a bias in favor of owning at least some stocks as opposed to bonds yielding little.

OK. If history is not very informative, what is relevant? Our strategy favors turning to the question of valuation. Over the course of roughly the past two years, Apple has traded at as little as 12x its annual earnings per share and most recently (before the current sell-off) at over 40x earnings per share based on estimates for the fiscal year ending this month. Two years ago Apple was viewed with skepticism having to do with questions on both their hardware and software/services offerings. Less than two weeks ago, the stock was trading up *routinely* at 1 or 2% a <u>day</u> as the market was anticipating a stock split and robust demand for goods and services as people were stocking up on devices on which they could effectively work from home. In other words, euphoria is highly correlated to heightened risk much as fear is actually associated with heightened opportunity. We try and reduce this difficult equation into a form of investment discipline. As in, buy 'em when nobody wants 'em.

Bottom line: like most things of import, what you pay for things matters. At the risk of repeating ourselves, having a disciplined approach to acquiring good assets at attractive prices in relation to their earnings power has enjoyed a fine track record over the past 49 years. Even longer. Sometimes great patience is required in times of duress. Being willing to wind down risk a turn or two when the applause is deafening is also a prudent practice. In this respect, there is good reason to expect that the past can indeed be prologue. We are counting on it.

If things do not work out so well as neatly laid out here, we have another Yogi quote in our pocket…
"I never said most of the things I said." Thank you, Yogi. Hang in there. Wear those masks and start thinking about a close encounter with a vaccine needle ASAP.

Best regards,

Steven N. Spence
Senior Vice President
Sr. Portfolio Manager-Focus
Financial Advisor

Marcia M. Hull
Senior Vice President
Sr. Portfolio Manager-Focus
Financial Advisor

Christopher P. Klavins
Senior Vice President
Sr. Portfolio Manager-Focus
Financial Advisor