RBC Wealth Management

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"It is better to be vaguely right than exactly wrong."

British philosopher Carveth Read, circa 1920

Dear Friends,

So… we got the bounce we prospectively mentioned in our note of 3/18. However, to call it a bounce is a disservice to bounces. The Dow surged from a low of approximately 18,600 on 3/23 to 22,515, nearly 4,000 points or 21%. We are hard pressed to find a commentator capable of describing what just happened as a bull market even though +21% fits the commonly held definition of said same. These types of movements are not uncommon following a collapse in the market averages. What distinguished this one was the time required to attain it: 3 days. Despite the turmoil over the past couple of weeks we were successful in re-deploying a portion of the cash formerly held either in short term CDs or the money market fund into attractive stocks at prices we could not have imagined just weeks ago. We hope and expect to do more.

Where to from here?

- First is to note that, ironically, the asset allocation needle does not move much early in the re-deployment process. CDs and cash hold their value in a down market whereas stocks do not. Once we get into the third wave of purchases you should expect to see the piece of the pie allocated to stocks become notably greater than before.

- At the peak in the market just weeks ago, stocks were trading routinely at 24x earnings for the past 12 months. 12x earnings is commonplace today and 6x earnings is not unusual. Translating these measures into plain English, if you were to purchase a business, would you prefer to get your entire investment back in 24 years or 12? Or 6? When we can acquire fine companies at valuations roughly half of where they were just 6 weeks ago, we should (and are) doing just that after spending much of the past twelve months paring back your allocation to stocks. We appreciate this is more easily said than done. But such is the way of the markets.

- Looking ahead, expect the volatility in the markets to remain a challenge. Hard to know whether to hit the Send key on an order for 200,000 shares of stock or to wait another hour or another day before hitting the button. Volatility makes the job of serially taking advantage of major markdowns even more challenging than usual. But we fully expect the bargain bonanza is not over and have an evolving "wish list" from which we are working. Keep in mind, in this regard, so long as we have ample dry powder, markdowns are our friends.

These are the times when all of us have to earn our keep, each contributing in our own way. With the exception of our brave team members Kathy and Shana, who are working alternating days in the office, the rest of us are working remotely. If you are having difficulty reaching any of us directly, please call and they will make the connection. All in, what was unthinkable just two weeks ago seems to be working. Much of the credit for this goes to RBC and its technology vendors such as Cisco for ramping up the number of servers available to remote workers from nine to thirty-one. In one week. Kudos to all involved.

Next? Who knows. One day at a time! But here are some aspirational predictions. Before we write to you again, we hope to see a breakthrough in one or more of the following: testing, a constructive announcement out of Gilead on the efficacy of their product Remdesivir, or at minimum, that the curve is beginning to bend on the rate of new diagnoses.

Finally, a quick heads up: the markets will be closed April 10th for Good Friday. Not a case of us collectively taking the last stage out of town (though we actively considered it).

Stay well.

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