RBC Wealth Management

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"There is nothing investors hate more than uncertainty.
Right now, that is all there is."

Lead Story, New York Times, March 7, 2020

Dear Friends,

No, not another windy Client Letter. We haven't fully recovered from the last one, among the most challenging we have written. This note falls among two other old "shorties," both in response to exogenous events impacting the markets and the valuations for the good companies you owned. Those events included Black Monday in 1987 in which the markets fell over 30% in two days and 9/11 in 2001. We also did two dial-in calls in '09 surrounding the 50% decline in the markets over the preceding eighteen months. All of these events turned out to be wonderful times to capture some remarkable bargains. Think here the quote from Warren Buffett, "There will be an end to the world, but this isn't it." How about today? The Times article quoted above did a great job of defining the problem:

"Uncertainty about the severity and duration of the coronavirus outbreak is ripping around the world at something like light speed. Uncertainty about how the global economy will fare as factories, airports, stores, schools, entire cities shut down. Uncertainty about the ability of governments to contain the disease and the power of central banks to counter its economic fallout. Uncertainty about how long all of this uncertainty will last." And those are just the known unknowns!

Our current grumpiness also centers upon four identified risks: relatively rich valuations for stocks in relation to earnings, microscopic interest rates which are forcing people to give up on bonds and CDs in favor of riskier assets, risks associated with the electoral cycle and the durability of relatively low corporate income tax rates. (Higher taxes translate to lower reported earnings likely leading to further pressure on stocks.) We also highlight the growing *speculative* nature of the markets and compared them to the year 2000 leading to the "Tech Wreck" and a vicious 18-month bear market.

Where are we now? From the peak, at the low today (3/9), the Dow is down 19.5%, just shy of the standard definition of a Bear Market. While 2,000 point moves on a given day are upsetting, that kind of movement has to be viewed in light of a near 30,000 point Dow. It is interesting to note that last week the market suffered from wild swings but the Dow actually closed up slightly for the week. The message here? Patience, discipline, a predisposition to be risk assumptive when bargains erupt (plus lots of Purell) will likely be required to get through the current malaise. Look for us to take a belt and suspenders approach to acquiring high-grade stocks starting slowly then proceeding on a steady and deliberate basis. We can assure you that this is truly an exercise in uncertainty as the NY Times relates. But we also believe that this too shall pass! Please do not hesitate to call if you have questions or an alternative point of view. We do try and remember that it is your money we are dealing with after all. Hang in there!

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