TOUCHSTONE Update

Richmond | Goodman Wealth Management

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Dear Friends,

With all that is going on in the world, we thought we would take a brief hiatus from our usual "TS Reads" compilation of articles. In lieu, we'll focus on how the Coronavirus has affected the markets, and our decisions, of late.

At the risk of making the understatement of the decade, it's been 2 weeks of absurd volatility in the markets. Having said that, with markets priced for perfection one should not be surprised. That's not to say that we knew what was coming… we did not of course. As you know, whenever we are asked our thoughts about the future direction of the markets, we are quick to say "we have no idea whatsoever". The only thing that we DO know at all times is what the risk level is in the markets. In other words, is the market at a level that leaves it more susceptible to some bad news/event?

In order to gauge that, and as you may recall, the market risk tool that we use is called Point & Figure charting. Specifically, whenever that measure rises above 70%, it means the market is entering a zone that is higher risk. This is exactly what happened in December and January, with the measure reaching 80%. Such levels indicate that the vast majority of stocks are doing well. Historically, this results in the market being overvalued and is subject to a correction, should a catalyst emerge that would cause investors to rethink the prospects for continued economic prosperity.

We all know now that COVID-19 has been that catalyst. Added to that was (until this past Super Tuesday), the thought of a Bernie Sanders Presidency, which scared the markets as well. Together, these forces caused swings in the overall market that even the media couldn't overstate. The reality is that should these forces persists, the economy will contract (the cocooning effect on businesses and families).

Last week was only down days for the Index…this week has been a yo-yo of epic proportions (3, 4, 5% moves each day):

Monday:	Huge rally after previous weeks' large drop.
Tuesday:	Market opens very weak after the G7 does nothing…mid-morning US Fed cuts rates. Literally WITHIN 30 SECONDS, the market went from down 300 points to UP 300 points. By end of day it faltered once again...because people then understood that a rate cut does not get people to go to Disney or hop on a plane.
Wednesday:	More volatility. Anything healthcare related pops higher by about 10% based on fact that Joe Biden did better than expected and therefore less fear of a Sanders health care reform plan. Market ends the day up almost 1000 points.
Thursday:	Market again drops at the open over 800 points…more COVID-19 fears. It's now 11am and we can say with certainty that we have no clue how the rest of the day will go.
Friday	TBD!

Having said all that, we want to point out a few things.

First and foremost, we are here and engaged. We have decades of experience to know that this is no time for emotion. What has guided us in the past will guide us now….our unbiased tools that we have spoken about for many, many years.

Second, when the risk level went above 70% in January, we started to lessen our exposure by selling certain positions and add the proceeds to interest bearing savings accounts. It's one of our “rules” (get out of harm's way as best as we can) knowing that historically when the market is that high, the probability for a correction rises. Our decision to increase our cash levels was fortuitous.

Third, when the COVID-19 took root, we also exited a few positions that might be directly affected. For new clients, we simply go into a holding pattern (not buy) until such time as there is some direction based on our risk tools. We can always recover quickly from small declines…it's the big declines that mathematically take quite some time to recover from. We try our very best to avoid the latter.

The result from our actions has very much saved capital compared to the indices at this time….as it did for your portfolios in 2008, 2011, 2013, 2015, and 2018.

This brings us to our last point. There are two types of investor mindsets in circumstances like this. Do I bet the farm…or….do I sell everything and buy dried food? The answer to both these questions is the same: NO.

We would be happy to discuss why with each of you at your convenience.

So that is where we stand right now. You may ask, so where is your risk measure right now? Not surprisingly, the level has dramatically headed “south” (now around 30%) which means that risk is much lower now than two weeks ago. That's a good sign, despite the negative emotions out there. However, in order for us to return to a bullish stance, that same risk measure must hold steady and return to a positive bias.

That could come today, tomorrow, next week, or next year. Until then, we will continue to monitor risk and avoid investing based on a strategy of "hope".

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