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March (Coronavirus) Madness

Monday, March 9th of this week marked the 11th anniversary of the stock market bottom during the sub-prime mortgage crash of 2008-2009. So what did the stock market do Monday? It celebrated by falling 7% immediately upon the opening.

Since March 9, 2009, we have experienced an 11-year bull market, possibly the longest bull market in history. It's the type of market where you don't have to be smart to look smart. Long, drawn-out bull markets make everyone an expert and investors eventually begin to look for "easy" and "automatic" systems of investing. The concept of "robo-advisors" becomes popular during long bull markets. When large investment returns just seem easy to get, the idea of paying for good advice when you obviously don't need it becomes less popular.

Until the past three weeks.

Since the stock market "peak" February 19th, the S&P 500 has declined 26%. Which includes today . . . on Thursday, March 12th, the market closed down over 9%.

No one knows for sure how this will ultimately play out because nothing like this has ever played out. But here are some of our thoughts about the most likely scenario:

From what we have heard, COVID-19 (aka Coronavirus) is not a "killer virus" like the bubonic plague, although it has proven to be fatal for certain individuals whose immune systems may have been weak for other reasons. For most people who contract it, the Coronavirus is a rather persistent bug that, unfortunately, doesn't really announce itself until you have passed it on to several other people . . . allowing it to infect a lot of other people.

If indeed, it is nothing more than a very uncomfortable virus for a couple of weeks, we feel the securities markets are way over-reacting. Business will be lost, for sure. Planes, if they fly, will have fewer passengers. Hotels, if they are open, will have fewer guests. Movie theaters and restaurants will feel the pain. Basketball games and tournaments have gone from "sparsely attended" to "no attendees allowed" to "canceled."

But let's be clear about this . . . what is happening today is NOTHING like the sub-prime mortgage crisis of 2008-2009. The Coronavirus sell-off has happened more quickly than 2008 but we feel will also be over more quickly.

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The sub-prime mortgage crisis had the potential to change our financial lives for a painfully long time. Homeowners walked away from their mortgages. The unemployment rate was over 10%. Major financial institutions had to close their doors permanently. It was genuinely scary.

We would not be surprised if the Coronavirus crisis is virtually over in just a few months. Causing maybe a mild recession because, let's face it, there will be very little consumer business happening for a few months. After that? Our bet is that it will be business as usual, consumers will be back to spending and these stock prices will have looked very cheap. Some of them ridiculously cheap.

And it's always good to remember, the stock market plunged 23% in one day on October 19th, 1987. And in six months it was almost back to the level before the crash. Those that didn't panic and didn't sell looked really smart.

Although we haven't started bottom fishing yet, we are getting really tempted.

Right now, the only thing we have to fear is fear itself (and other trite sayings).