

## **SOUND ADVICE: MARCH 27, 2020**

Quite frequently, I have been asked for my thoughts on the markets and other things so here they are. This is not meant to be the script to the future, but instead some food for thought for those looking for perspective.

Let me begin by saying I hope you all are healthy and staying safe and that this, too, will pass. As comforting as that may be, we understand that people have a high level of anxiety right now. You cannot turn on the TV, look at your phone or computer or speak to anybody without being bombarded with a reminder that we are dealing with Covid-19. Even the electronic signs on the highway that are traditionally used for traffic updates and amber alerts just say, "Stay at Home".

In the late 1980s, when I began working as a financial advisor, Wall Street was hot as a pistol. The stock market was up about 20% in 1986 and kept rising through the 3rd quarter of 1987. The Dow Jones Industrial Average hit an unfathomable high of 2,700 (BTW, last month it hit 29,552). Then in the 4th quarter of 1987, things changed and the market started going down. At first, the Dow Jones Industrial Average dropped 500 points gradually and then it plunged 500 more points - more than 22% - in one day, October 19th, 1987.

Most brokers and clients were traumatized. Predictions of a collapsing economy, a massive prolonged recession, permanent unemployment, and even a depression were all over the newspapers and the TV. People panicked while chanting "this is going to get worse before it ends, if it ever ends." Plus the oh-so-familiar comment I am again hearing, "we have never seen this before!".

But nothing really happened except that the stock market started rising. In fact, the average annual return over the following 10 years was over 18%. Yes, you read that right, over 18% average return per year over the next 10 years and no depression. Those investors who panicked in 1987 had to live with what became known as seller's remorse. Instead of buying stocks that were selling at bargain prices investors previously could only wish for, they took on a herd mentality and sold stocks. That turned out to be a terrible mistake. But some of the old timers in my office were advising their clients not to sell, rather to buy.

At the time, I asked Diego, one of my favorite colleagues, what he was doing. He was born and raised in Spain. He said, "I grew up in a fishing town and I spent a lot of time in the fish market there. A common saying was, 'Don't pay attention to the noise in the market, pay attention to the price of the fish'". Diego continued that he was not selling since the fish were the cheapest he had ever seen. He was using this as a buying opportunity, which turned out to be spot on. The buys he made for his clients that week in October 1987 turned out to be not only gutsy but resulted in some of the best purchases of his career.

As Warren Buffett, the famed investor from Omaha who made his money as a professional investor so eloquently said, "Be fearful when others are greedy, but be greedy when others are fearful." Now ask yourself the question, "Are people greedy or fearful?"

So here we are, more than three decades later, as I wash my hands for a full 20 seconds, and then turn off the hot water while holding the handle with a paper towel to be safe, I think of all the difficult times that have passed since the 1987 DJIA low of 1,700: the Russia default of 1997, Singapore and Malaysia freezing their currency, the Y2K panic, the unwinding of the [Dot.Com](#) mania, the tragedy of 9/11/2001, the longest war in American history against an enemy that in many cases walked among us, and who can forget the 2008 Financial Crisis. You remember, we were told by the media outlets as well as highly opinionated and confident friends that the crisis would lead to a depression this country would never recover from.

In March 2009, the Volatility Index known as the VIX was trading between 85 and 90. It normally trades between 10 and 15. The higher the VIX, the higher the fear that investors are experiencing. In the last 20 years, it has traded above 60 only twice. The first time, as already mentioned, was in March 2009 when the market bottomed and subsequently experienced one of the most heroic rebounds ever seen in the stock and bond markets. The second time was last week when the VIX again traded between 85 and 90. It's worth repeating that the only time other than last week the VIX reached 85 and 90 in the last 20 years was also the best buying opportunity in the last 20 years. And here we are again.

I want to leave you with some final thoughts. No one can predict how and when this will end, but we have some ideas. The medical community will probably develop a vaccine and perhaps a treatment and a cure. When that happens, the equity markets are likely to change direction and begin to move back up. Or they could move up as violently going forward as they had dropped over the last couple of months. Call me an optimist or call me naïve, but don't call me to try convincing me otherwise

unless you bring your crystal ball to prove it. We've seen this movie before, and we will be on our feet applauding when the credits roll.

In the meantime, use your newly found downtime productively, and at the risk of sounding preacher-like, show empathy towards those less fortunate, and be appreciative of and thankful for those who are on the front lines like truck drivers, medical and hospital personnel, law enforcement, public transportation workers, and grocery store workers, to name a few. If you can assist residents in your building or neighborhood by providing them with an essential need you have access to, it will provide not only much needed support, but it will make you feel better as well. Isn't that what we all want right now? Many of you wish you could be with a loved one who is elsewhere, so instead assist the loved ones of others in the same situation.

We should all find comfort that the medical community, the private sector and the government are all working hard to get this under control.

This is America and we will do whatever it takes to prevail. So stay safe, appreciate your time locked down with your family, and don't panic. Follow the directions of your local leaders and don't put others at medical risk by being careless. In the words of the author Robert Schuller, "Tough Times Don't Last, Tough People Do".

Stay safe, Russell

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