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Where are we now?

More than a few times over the last few years, I have commented on the looming possibility of daily changes in the market averages well above the relatively mundane moves of 100 to 200 points that have become commonplace. What we had been used to was a variation of less than 1% per day. But having already had a number of days in the 1,000+ point range, it would be useful to put that in perspective.

Let's begin by recognizing that typical upward market action tends to follow the pattern of a staircase. Downward movement, however, is often like that of an elevator, quite possibly one that is running as an express.

Going back to the beginning of this year, it was clear to me that the outsized gain that we enjoyed in 2019 was atypical, especially since the normal rate of long-term advances has been about 10% a year. Yet 2019 was more atypical than it appeared since a substantial part of the advance was a recovery from the fourth-quarter plunge of 2018. So, the gains registered later in the year turned out to far less outsized than they appeared at first.

Still, we ended up in January with valuations toward the upper end of the historical range. Higher valuations mean increased risk. They also mean that outsized advances now will mean more modest advances later. What was especially odd, however, was that there continued to be a cadre of Wall Street veterans making a case for more big gains ahead. Indeed, back in January, Professor Jeremy Siegel of the Wharton School at Penn made a case for stock valuations being in a new normal range and suggested that there was plenty of room for growth. That was probably not the best timing for such a pronouncement.

And yet, more often than not in the past, there have been others who remained bullish regardless of circumstances that pointed clearly in the opposite direction. Far more reasonable would have been a view expressing the importance of being patient while the earning power of corporate America increased, allowing valuations to work their way back down to a less stretched level. The path of reason, however, is not always the one that has been followed.

In the wake of the market trauma that began in February, we are now looking at a Dow that is closer to 20,000 than 30,000, a level that indicator flirted with not that long ago. Several weeks back, in fact, 18,000 was in sight.

More interesting, but often misleading, are the big market bounces that happen amid the turmoil. A daily jump of 1,000 points or more may seem like a harbinger, but it's not. These are referred to as bear market rallies or relief rallies. They usually last for a few days, then give way to further weakness. None are predictive of what lies ahead.

What may be predictive will be significant changes in the developments that have caused this big cloud to hang over our heads. A slowing infection rate and progress in treating those who are infected will help. But in the absence of inherent immunity, acquired immunity or a widely available vaccine, there will still be a lot to be concerned about. For that matter, it would be best to ignore media and social media talk about miracle medicines or treatments. Ça n'exist pas!

From a business and economic perspective, the situation will get worse before it gets better. From an investment perspective, however, the driving force will be what lies beyond this difficult period. Investors look ahead, sometimes far ahead. As the view toward the horizon improves, so will the markets.

We would be fortunate if what lies ahead is an extended period of moderate price recovery rather a continuation of having to react to the constant bombardment of dramatic daily market movements. This is a distinct possibility.

Stay well and safe,

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