

Stock Market Moves February 2020



A big “point” drop in the stock market today. The newspapers will have big headlines of “DJIA Drops 1,031 Points” in the morning. Many news sources already have it on the top of their webpages. People who never talk about the stock market will begin talking about it. For those in Wisconsin, the stock market conversation might even jump in front of the upcoming snowstorm during passing conversations (as this newsletter went to press the snowstorm has apparently been cancelled 😊.)

As we all process this and talk about it during conversations, let’s keep the following things in mind:

- Large “point” drops in DJIA are not what they used to be (see our previous articles [here](#) and [here](#))
- Market movements in the short-term are unknown
- Market movements can be swift in both directions as new information is priced in
- Short-term needs are different than long-term needs

Short-term movements are unknown

“Pundits who opine on these subjects reveal, by that very behavior, far more about themselves than they reveal about the future.”[1] – Warren Buffett

Everyone likes to speculate on the short-term direction of the stock market. The unknown direction gives everyone a “chance” at guessing right. As long as the guess is general enough (no specific dates or amounts), the chance of guessing right increases. Like a 50/50 raffle, people enjoy the feeling that they have a chance. However, usually after the initial guess, people forget to check on their prediction. The forgetting is usually attributed to being wrong. They forget to check right up to the day that markets move in a big way. Then, the “I told you” or “I knew it” phrases start to appear. Be ready for those to flood conversations or news coverage.

Those same people that were thinking “this move” was going to happen missed the prior bigger, slower moves. For instance, the world stock market was up 26% in 2019[2]. The same person saying “I told you” was likely invested the same way in 2019 and missed that gain. You can’t have it both ways.

The idea that we say we can’t predict short-term movements should give our clients more confidence in the process, not less. We are really saying no one can predict tomorrow’s market movement. Someone that does is not smart enough to know the game being played. They will eventually have to face the facts. Warren Buffett released his annual shareholder letter this past weekend and it did not disappoint. Here were a few takeaway quotes:

- “Over time, Charlie and I expect our equity holdings – as a group – to deliver major gains, albeit in an unpredictable and highly irregular manner.”[3]
- “Anything can happen to stock prices tomorrow.”

Swift market movements

“Imagine how much harder physics would be if electrons had feelings.” – Richard Feynman

We believe that markets are mostly efficient, so they usually reflect all available information in the market. Thus, we should expect for markets to move quickly once new information is discovered. This does **not** mean that markets will continue in the current direction or quickly reverse course. Tomorrow will bring new information and the markets will react positively or negatively on that news. Maybe tomorrow’s news simply confirms today’s news and today’s price was accurate. Or maybe not.

Estimating the impact of a virus with unknown consequences is not a simple calculation. If we were writing it out it would be:

$$\text{Economic consequences +/- Market participants expectations} = \text{Actual Gain or Loss}$$

Neither side of that +/- can be calculated with any relative certainty. Hence the short-term is unknown and might be swift as people try to figure it out. However, sometimes markets can get it reasonably close very quickly.[4]

Short-term vs Long-term investing

Timing matters in investing. This is why we spend so much time on understanding client needs, hopes, and aspirations. Financial stability and financial success are not interchangeable and mean different things to different people. It seems imprudent to risk losing what you need in pursuit of something you simply desire. Know what you need for the short-term to create short-term stability.

News coverage is speaking to a general public, so it cannot be expected to distinguish the two. Family and friends will oblige with market predictions, but most will utter hardly a word regarding specific purpose and timelines. That’s ok. Just know there is a difference.

We'll end with another helpful Buffett analogy he used in his shareholder letter commemorating the company's 50th anniversary in 2015:

"The reason for our conservatism, which may impress some people as extreme, is that it is entirely predictable that people will occasionally panic, but not at all predictable when this will happen. Though practically all days are relatively uneventful, tomorrow is always uncertain. (I felt no special apprehension on December 6, 1941 or September 10, 2001.) And if you can't predict what tomorrow will bring, you must be prepared for whatever it does."[5]

Contact us with any questions or concerns

As McCarthy Grittinger Financial Group celebrates our 25th anniversary as a company, know that we continue to be here to help manage your portfolio and expectations. We are thankful for your trust and looking forward to guiding you for another 25!

Matt Miler, CPA, CFP®

[1] <https://www.berkshirehathaway.com/letters/2019ltr.pdf> p.11

[2] Per Morningstar as measured by MCI ACWI All Cap NR USD. The index measures the performance of large, mid, small and micro cap segment of both developed and emerging markets equity securities. It covers approximately 99% of the global equity investment opportunity set across 23 developed markets and 21 emerging markets. The index is free float-adjusted market capitalization weighted

[3] <https://www.berkshirehathaway.com/letters/2019ltr.pdf>

[4] Amazing 2003 report (Maloney and Mulherin) showed that within minutes of *Challenger* explosion, market participants had correctly decreased the market capitalization of Morton Thiokol (manufacturer of defective O-ring). The Rogers Commission report detailing the cause was not released until five months after the explosion. The other companies involved in rocket production did not see as sharp of a drop.

[5] <https://www.berkshirehathaway.com/SpecialLetters/WEB%20past%20present%20future%202014.pdf>