2020 March Market Update

Last month I resurrected my article *The Best Time to Invest.* This month I go into more detail on the best time to invest. Also, this month I won't include valuations because of the uncertainty of the economy and earnings. I also won't include the bullish and bearish case for the markets, because most of the news is bad except for the fiscal and monetary efforts that are extraordinary and is written about below.

Also reviewed in this Update, will this be a V, U or L shaped recovery?

Similarities and differences between this and past recessions and bear markets.

I've written many times that I've studied every recession bear market going back to 1917. I've worked as an investment professional through the recessions and bear markets since 1980, and I remember all of them very well. Although history doesn't repeat itself, it does rhyme.

What is different this time is the global health crisis caused by covid-19. The health crisis has turned into a global economic crisis: unemployment spiking, supply disruptions, demand falloff, little visibility in terms of global. U.S. GDP and earnings… Improving the global health crisis is key to improving the global economic crisis.

This market cycle, 2009 to 2020, just ended. Here is what most bear markets have in common:

- Most bear markets with recessions are down about 30%. This bear market from peak to trough, is down over 30% for both the Dow 30 and S & P-so far.

- The decline phase is normally induced by fear and panic and are fast. This decline is the fastest in history.

- A negative feedback loop develops with layoffs, contraction in GDP and earnings, bankruptcies, bad loans and defaults, collapsing confidence… This is starting to happen.

- A basing period develops that is important to develop the springboard for the next bull market. More on this in the basing section below. We have not entered into the basing phase.

Here is what is very different in this economic and market cycle:

- This is a global health crisis that is turning into a global financial crisis. Here in the U.S., states have shut down their economies to "flatten the curve" to prevent the healthcare industry from being overwhelmed causing more deaths and suffering and putting health care workers under great health risks.

- I thought it would be difficult to use fiscal and monetary policies to help the economy. I was wrong. Normally fiscal and monetary happens once a recession starts.The fiscal and monetary efforts announced are extraordinary and this is before the recession starts. The stimulus from both will probably equal from **$4 to $6 TRILLION**. Some analysts are calling this a relief package because it's not meant to stimulate the economy but to sustain workers and small businesses during this difficult period.

The Fed lowered rates to 0 and most economists agree that 0 interest rates won't stimulate demand. More importantly the Fed has created a tremendous amount of liquidity by increasing their balance sheet. As I've written about in my economic Updates, the debt markets and bad loans are always a problem in recessions. With all the liquidity, we may avoid a liquidity crisis that normally happens in recessions. This liquidity should mean better access to credit for small and large businesses. The bad loans and investments made during the cycle will stay and cause headaches down the road.

The fiscal stimulus package is about $2 trillion. The details of the stimulus are not known at the time of this writing and has been passed by the senate, but not by congress. The question is, how do we pay for all this government and corporate debt?

The President will continue to move the markets as he has for the last 3 years. His economic team and mostly Republican politicians are constantly on the financial news networks. I've been watching the markets for about 40 years and I've never seen this type of media manipulation by an administration.

This Market Cycle Has Ended

The bull market that started in 2009 is over. Just about everything in the universe goes through four phases including markets and economies: birth, growth, mature, decline/end. Below is a chart that shows the phases of this market cycle that has ended:

Source: bigcharts

Below I explain these phases using technical/price analysis.

- The basing period is at the end of the decline phase. The basing period started in 2009 and prices did not break out until the end of 2011, a long basing period. There is more on the basing period below.

- The growth phase, from the end of 2011 to January 2018. Technical analysis describes the price action as rising tops and rising bottoms.

- The mature phase started after the high was made in January 2018. Prices had a hard time staying above that high for the past two years. In technical terms the mature phase is called a major reversal pattern/top and is normally the end of the bull market. The pattern being created was probably a rounding top, but the covid-19 crisis caused the major reversal pattern/top to end. Most tops last about 13 months. This market top was longer than most.

- The decline phase is normally fast and ugly. This decline was faster and declined more than usual. There are probably several reasons for the dramatic drop: 1. The rise from Dec 2019 to February 2020 was pushed up by speculation and speculators, algorithms, trend followers and momentum players. Most of these participants don't have conviction in their positions. Just as fast as they get in, they get out faster. 2. The market was overvalued. 3. The basing period from the correction of December 2019 was not long enough. The rally was suspect.

- The bull market ended when prices dropped convincingly below the long-term red trendline.

The next questions you probably have is how long does a decline last and what is the average drop. The next table answers both questions.

DOW 30 BEAR MARKET LOSSES POST WWII					DOW 30 BEAR MARKET TIMING POST WWII					
YEAR	HIGH	LOW	LOSS		`	TROUGH	MONTHS FROM PEAK TO TROUGH	DATE WHEN RETURNED TO PEAK	YEARS TO RETURN LAST PEAK	POST WAR
2008	14,279.96	6,440.08	54.90%		10/11/2007	3/9/2009	17.16667		?	
2000	11,908.23	7288.27	38.80%		1/14/2000	10/9/2002	33.3	10/12/2007	7.86	6.841667
1998	9,337.97	7539.07			7/17/1998	8/31/1998	1.5	1/4/1999	0.48	0.475
1990	2,999.75	2365.1	21.20%		7/16/1990	10/11/1990	3	/17/1991	0.76	0.763889
1987	2,722.42	1738.74			8/25/1987	10/19/1987	2	2/4/1990	3.33	3.325
1981	1,024.05	776.92	24.10%		4/27/1981	8/21/1982	16	0/4/1982	1.46	1.5
1976	1,014.79	74.12			9/21/1976	2/28/1978	17.5	/13/1981	4.46	4.4
1973	1,051.70	577.8	45.10%		1/11/1973	12/6/1974	23	1 /26/1982	9.93	9.8
1968	995.21	631.16	35.90%		12/3/1968	5/28/1970	18	/14/1980	11.87	3.9
1966	995.15	744.32			2/9/1966	10/7/1966	8	1 /10/1972	6.93	6.8
1961	734.91	535.76	27.10%		12/13/1961	6/26/1962	6	/15/1962	0.77	1.75
1946 - 49	212.50	163.21	23.20%		5/29/1946	5/17/1947	12	/15/1951	4.70	3.9
AVERAGE			**29.66%**		**AVG.**		**11.69231**		**4.22**	**3.523718**

Source: Dan Hassey database

The yellow shaded areas were bear markets but there was not a recession. The average decline is about 30%. So far both the Dow 30 and S & P 500 are both down over 30%.

On average, it takes about 12 months to go from peak to trough. Because the decline was so fast and deep, we will probably find the bottom sooner than 12 months.

The last column is the time to return to the previous peak (February 2020). On average it takes about 3 ½ years to return to the previous peak. This is one of the main reasons that my clients and myself were out of the market the last few years. Most of my clients are retired (I'm semi-retired) and don't have time to make up a 30% plus loss. I was also out because the markets were overvalued, risks were rising and we were late in the economic and market cycle.

Basing Period

During the decline phase, a bottom is made. Normally after a low is made, a one to two-day reversal follows the next day or two. The reversal normally has huge volume, dollars coming into the market,stocks and washes out the low made during the decline phase.

The next phase is the basing period and is key to the next bull market. As I've written many times, bases are like diving boards the longer the diving board the better the bounce. A short diving board is suspect regarding the start of a new bull market. This brings us to the next topic/ question that is getting lots of attention - will the economic recovery be a V, U or L shape?

Most recessions and bear markets have a U shape because of the negative feedback loop/all the bad news and it takes time for a recession to run its course. The President and his economic team want a V shape recovery. This has never happened with a bear market and recession. It's possible all the stimulus/relief money could help us avoid a recession. If the world goes into a recession as is likely, can the U.S. avoid one and be an economic island - I doubt it. An L shape would indicate a depression.

Bases occur during the recession and that's why you will probably have a test of the low during the basing period. Like topping major reversal patterns, bottoms have major reversal patterns that are similar: head and shoulders bottom, double bottom, bowl shape (top is an umbrella shape)... Bases normally average about 7 months, the time it takes to see economic and earnings improvements. Things are still bad but signs of improvement are visible.

Below are examples of basing periods from past cycles. The candlestick charts show the low made and the one to two-day reversals The one to two-day reversals are not shown on the line charts.

Basing Period 1962

Basing Period 1975

Basing Period 1982

Basing Period 1988

Basing Period 1991

2002, 2003 Basing Period

Again, bear markets with recessions have a basing period. Also, most have a one to two-day reversal. Below is a table I built regarding basing periods based on the studies I've done:

DATE BTM START	DATE END	BASING IN MONTHS	PATTERN	VOLUME	RECESSION	BTM TO BRK OUT/ MONTHS
10/6/08	7/23/09	9.6666667	Double Bottom	Abv. Avg	Yes	10
7/1/02	6/1/03	11.166667	Double Bottom	Low	Yes	8
8/31/98	10/5/98	1.1666667	Double Bottom	Normal	No	2.5
2/24/94	2/3/95	11.466667	Bowl	Abv. Avg	No	10
8/21/90	1/30/91	5.4	H & S	High	Yes	3
10/1/87	2/1/88	4.1	Triple Bottom	Low	No	5
2/1/84	8/1/84	6.0666667	Double Bottom	High	No	0.5
9/1/81	8/1/82	11.133333	Bowl	High	Yes	0.5
8/1/74	1/1/75	5.1	Double Bottom	High	Yes	1.5
6/1/62	11/1/62	5.1	Bowl	Low	Yes	4.5
Average # of Months		**7.0366667**				**5.06**

Source: Dan Hassey database

As the table states, the average time of basing is about 7 months, about two quarters to see improvements in earnings and economic activity, employment… Most bases form a double bottom, in other words a test of the bottom is normal. Once a bottom is made, it takes about 5 months to break out of the basing pattern. The bear market of 2008, 2009 took much longer.

The above table lists 10 bear markets, basing periods. I do have all 10 charts. If you would like copies of the remaining four, email me your request.

THE BIG QUESTION IS - WILL WE HAVE A V SHAPED ECONOMIC AND MARKET RECOVERY, A NORMAL U SHAPED RECOVERY OR AN L SHAPED RECOVERY?

Nobody knows for sure. Again, if the health crisis ends soon (most health professionals doubt this) then a V shape is possible. It's more likely we will have a normal U shaped economic and market recovery.

The Focus Should be on the Virus

I'm an investment professional, not a health professional, so I shouldn't talk about the causes and health impact of covid-19 on the U.S. and world. However, we should all take this virus seriously and more importantly BE SAFE!

According to the Wall Street Journal (yes, I know it's not a health focused media) The groups that are vulnerable include people over 60, about **80 million** and includes the greatest generation (born before 1928), the silent generation (1928 to 1945) and baby boomers (1946, 1963, not all baby boomers are over 60). Also there are **34 million** people with diabetes and about **77 million people** with high blood pressure. COMBINED VULNERABLE PEOPLE ARE ABOUT 190 MILLION, MORE THAN HALF THE U.S. POPULATION.

Because 190 million people are in high risk groups, and because the virus is so contagious and lethal to these groups, this makes the virus dangerous for the U.S.. So far only about 1% of U.S. citizens have been tested. How many people have the virus and have not been tested and may be spreading the virus. This increases the probability of a vulnerable person becoming infected. More people need to be tested.

At this time, there is no prevention or cure for the virus and makes this much more dangerous than the seasonal flu and cold.

The U.S. is very mobile (planes, trains and automobiles). Certain cities in the U.S. are densely populated. Both allow for contagion.

Summary and Conclusion

- The U.S. is highly vulnerable to this lethal virus: 190 million citizens are in high risk groups; the U.S. is mobile, many cities in the U.S. are densely populated, testing is hard to get and we need to know who's infected, there is no prevention or cure. Many of us believe science and technology will come through. This along with our prayers and staying safe.

- This market cycle has ended. We have probably entered a global and U.S. recession.

If you took an economics class in the last 50 years, you probably learned that the definition of a recession is two quarters of negative GDP reports. Economists are forecasting this for the first and second quarters.

The National Bureau of Economic Research officially declares when a recession starts and ends. They have come up with a different definition for a recession. Here is an excerpt from their website:

"A recession is a period between a peak and a trough, and an expansion is a period between a trough and a peak. **<u>During a recession, a significant decline in economic activity spreads across the economy and can last from a few months to more than a year</u>**. Similarly, during an expansion, economic activity rises substantially, spreads across the economy, and usually lasts for several years."

This definition is nebules compared to the old economic definition.

- There are 4 phases to a market cycle: birth, growth, mature, decline. This market cycle is complete as we have gone through all 4 phases.
- If we have the normal bear market and recession, we will have a normal U shaped recovery. The basing period will be key to setting up the next bull market. Bases are like diving boards, the longer the board the better the bounce. A short diving board should be considered suspect. The average basing period lasts about seven months.
- All the bad news and some good news is making the markets very volatile. Another way to say this is the markets are headline driven. The President will continue to send his administration to the financial cable news to talk up the economy and markets and their efforts to end the financial meltdown. The bulls are looking for a cure or prevention, an improvement in the number of cases of the virus, as well as more news on the relief programs. These announcements have caused rallies in the past and will probably cause rallies in the future. These strong rallies are allowing investors to raise cash and reduce exposure to riskier positions and position yourself for the next bull market cycle.

The President and the country would probably be better served if he focused on the health crisis as it's expected to get worse and there is a lot to do, and we're losing time. He has time to work on an economic recovery plan once the health crisis improves.

- I will let you know how this bear market progresses, but more importantly when it may be a good time to invest. Will I pick the bottom, that is not my goal. My goal is to buy when stocks are undervalued and hold them at least until the next bull market cycle ends. In the past, when I started investing during the basing period, prices did go lower, but two to three years later prices were much higher.

As I get older, I'm focusing on safe, growing dividend stocks for myself and for my retired clients. I doubt that I will sell them at the end of the next bull market cycle, but I will certainly hedge. We will have a portion of our assets positioned for growth to last during our retirement years.

Next month I will do my quarterly Update. It will probably be toward the end of the month so I have more economic data.