The Outlook: Oct. 23, 2018

The nature of the market . . . as always.

90 Years: the Nature of the Market

S&P 500: 1926-2015

Time Frame	Positive	Negative
Daily	54%	46%
Quarterly	68%	32%
One Year	74%	26%
5 Years	86%	14%
10 Years	94%	6%
20 Years	100%	0%

Source: Returns 2.0

When the bear jumps up and down on our tattered investments, and calls in his grizzly buddies to make sure we're truly flattened, it's rather important for investors to do a couple of things:

- Think calmly, and understand that the market is not a good thinker, calm or otherwise; and

- Remind ourselves that the worst and the most common mistake investors make is to let themselves be frightened into selling. *It's impossible to overstate the importance of avoiding that mistake.*

The chart on top reminds us of the market's permanent nature. 46% of all days are "down" days; 32% of all quarters; 26% of all years. That's a whole lot of "down" days, quarters and years. Here's the $64,000 Question: "Do we think that during all those "downs," there was actually something bad going on in the real world? Something seriously bad enough to justify the market's plunges?"

We know the answer. The market is behaving perfectly normally. This is its nature. It always tries panic on for size now and then—as often as twice per year, according to one recent analysis. It's an unfortunate fact about the market that a vast crowd of speculators dictate its daily price movements—and they make their money by betting stocks will either go up sharply, for a while; or down sharply, for a while. "A while" might be a day, a week, a quarter, or longer, now and then.

Since 54% of all days in market history are "up," and 46% of all days are "down," those speculators are careful not to bet heavily on either direction, most of the time. But now and then the "mob" senses that the whole mob feels like running the same direction—for a while—and that gives them a chance to bet more heavily (on either down or up) and keep their bets in place for longer than a few days.

None of this behavior makes anything like a balanced judgment about what's happening in the real world. The market's speculators are not in the business of making balanced judgments—they're in the business of jumping on short-term trends, then poising themselves to jump right off before the trend reverses. It all sounds chaotic, except for the fact that in the long run, nothing matters except real-world facts about business and economic health. That crowd of speculators can

completely ignore such facts for brief time periods—but they cannot, and do not ignore them over longer time periods.

When we see this kind of behavior, and the market value of our assets falling, the only correct thing for us to do is shrug, say, "That's the market throwing a fit for a while," and know that those values will rise again, and will go far beyond this year's levels. That's exactly what has happened too many times to count, over the past 10 years (or 20, 30 and 40 years.) The worst thing to do is pay attention to the media, for whom "end of the world" stories are the best thing that can happen. (So good that they make them up as often as they can.)

Neither Outlook nor anyone else can predict just how long the current market fit will last. Our guess is: "not much longer." The first few weeks of October have been terrible—but we'd bet a modest amount of money that November will be up, either mildly or strongly. But that's nothing but a guess. Nobody is good at that kind of guess, though naturally many say they are. But we'd bet more than a modest amount of money that 2019 will be up, pretty strongly; and we'd bet a great deal of money that if 2019 is not up strongly, 2020 will be up—very strongly. U.S. companies are too strong, too healthy, and too cheaply valued by the market to allow that mob of speculators to keep the panic going very long. This is not 2001, when "dotcom" stocks dominated the market and were valued at insane levels, while even "normal" companies were valued at silly-high levels. We are very far from that situation today. We're much closer to the opposite end of the spectrum: strong companies at low values, rather than ridiculous companies at high values. The market is treating those strong companies as if they were ridiculous, right now. It's wrong, and it won't be able to sustain that bet.

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