# <u>The Outlook:  March 14, 2020</u>

***The economic problem:  the Virus itself . . . or the "abundance of caution."***

We've talked a lot about understanding what we've been seeing in the market.  If we understand the absolute power held by speculators, when they act together, to temporarily drive the market to "Twilight Zone" values (both down and up), then we understand what we've been seeing.  If we don't understand how speculators rule the short-term market, then we will never understand what the market has been doing.

But let's set the speculators aside, this afternoon, and focus on ourselves:  on investors.

All investors stand at a fork in the road, today, and must choose which way to go.  We must choose which of two things to believe about the nature of the Virus itself.

1. Either the Virus is nearly certain to be a terrible, long-lasting disease which will kill or incapacitate so many people around the world that economic activity will itself suffer "terrible, long-lasting" damage; or

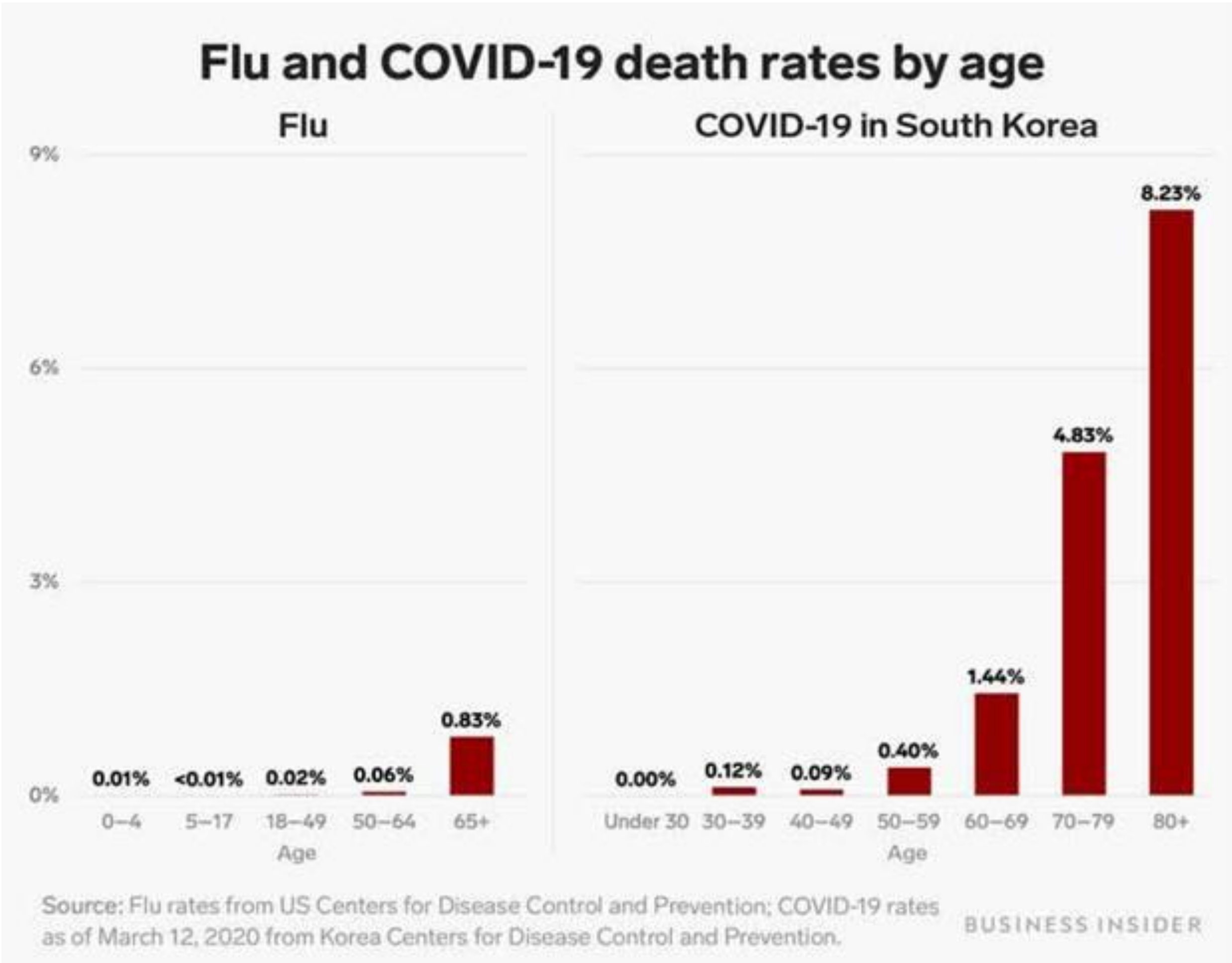
2. The Virus is nearly certain to be a fundamentally minor and temporary disease (by medical and "pandemic" standards) which cannot, <u>by itself</u>, inflict serious, lasting damage on the global economy.

For investors who choose "Belief Number One," the market's behavior and current valuations aren't in the "Twilight Zone" at all, but instead make sense . . . and are likely to get worse, last a long time, and recover too slowly (if at all) to do us any good for a long time, possibly our lifetimes.  Any investor in that camp should be selling every stock they own, now, regardless of how low they've already been driven.  Investors in that camp should compare themselves to investors in December, 1929—only a couple of months after the Great Crash began—when despite the market's appalling losses, it still had a long way to go down.  (Today we've lived through only 19 trading days since the market's all-time high—so we get the idea.)

For investors who choose "Belief Number Two," their next step is to ask this question:  <u>"Since the Virus itself isn't the problem, what *is* the problem . . . and how much long-lasting damage might it do?"</u>

We'll look at that question, of course.  But first let's offer something to investors tempted by "Belief Number One."

**Context.  Flu:  millions of infections, hundreds of thousands of deaths.  Virus:  175,000 infections, 6,000 deaths.**




We'll bet, at Outlook, that most Americans have upped their medical knowledge by at least 100%, since the Virus showed up. We're flooded every day with expert medical analysis and more statistics than we can shake a stick at. A lot of the analysis, and even the statistics, are very good. We think this chart captures the heart of the Virus. It tells us the Virus' death rate isn't much above flu, unless it infects older people. And as the caption notes, the Virus is still tiny, compared to the flu. It is so tiny it's hard for any medical scientist to imagine a trajectory which would bring the Virus into the flu's neighborhood.

One more item. America has suffered about 50 deaths from the Virus, so far. Very close to 100% of those deaths occurred in people in both of these categories: over 60 (mostly over 70), and already sick with something fairly serious.

None of those items are "good news." But they are facts which matter, good or not. The Virus overwhelmingly targets the old and sick, and that fact has been supported from Wuhan to Seattle. The Virus, in all its behavior so far, has not shown itself to be a serious threat to the general population. It is not the Plague, the Spanish Flu, or even the Swine Flu of 2003 – 2004 (which killed 200,000 around the world.) "Belief Number One" just doesn't stand up to the facts, so far.

What is the problem, then?

In a nutshell, the damage being done to the global economy (from which all those speculators are taking their cues), is coming directly from all the “Abundance of Caution” steps taken to fight the Virus. Those steps are already vast, and all of them have the same effect: they slow down economic activity. The slowdowns are abrupt and sweeping. They can and will inflict damage on the U.S. and global economies. Because this “Virus Crisis” is so new and different, nobody has a sense of how temporary the “Abundance of Caution” actions will be, hence how temporary the economic damage will be.

But the difference between “Belief Number One” and “Belief Number Two” is the engine which will make the slowdown damage temporary. The temporary and limited harm done by the Virus itself will become more obvious to more people—even politicians—with each passing week. The economic damage inflicted by all the “Abundance of Caution” actions, and absorbed by everyone, will also become more obvious with each passing week. Side by side, those two processes will gradually ease the economic pain, because economic activity will resume and business sales and earnings will recover.

In other words, as we’ve noted a couple of times, this is indeed “temporary.” It will have been a plunge in the roller coaster never imagined a couple of months ago—which does happen to the stock market. But the roller coaster is still, and always, exactly that: after plunging, it always rises again.

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