# The Outlook: March 9, 2020

***What the market thinks it knows . . . but never does.***

This investing business does like to test our nerves, doesn't it?

In 1859 an acrobat named Jean Blondin crossed Niagara Falls on a tightrope. In case he fell off, his faithful assistant, Pierre, rowed a boat in circles at the bottom of the falls, all the while struggling to keep from being sucked under the deluge. Today we investors felt like Pierre losing that battle, as a Niagara Falls of catastrophic headlines and ghastly forecasts poured down upon us. With the market not just trampling on our stock prices, but attempting to blow them to smithereens, no investor can be blamed for feeling a little shaky in the midst of the screaming headlines and plunging prices.

As always, the Big Question for good investors at such times is: "When the market and the media are telling us to be afraid—to be terrified, actually—shall we believe them or not?" And, "Does the market *know* something which we don't know, about the terrible future just down the road?"

Outlook's clients and friends know our answers: "No," and "No."

We can sum up "what the market thinks it knows" this way: "The Coronavirus Pandemic plus the Saudi/Russia oil price war are two of the "Black Swan Events" of all time. (That means something like, "Global Catastrophes Which Nobody Foresaw.") They will absolutely plunge the world into a deep recession, with maybe another financial panic and credit-market meltdown for good measure. The economy will plunge into "a deep hole from which it will be tough to escape" (the Wall Street Journal actually wrote that sentence, and put it on the front page), so what happens to the market will be indescribable in a family newsletter."

That's what's in the market's "mind," if we wish to call it that. There is no other meaning for 15% to 30% plunges in one day (on top of prior 10% to 15% plunges), in the stocks of financially rock-solid companies, already cautiously valued, whose business futures are certainly not going to plunge into "a deep hole from which it will be tough to escape." But that's the kind of thing the market "thinks it knows" every single time Wall Street gets seriously frightened about something, through all the years; and no matter how many times Main Street eventually proves the market dead wrong, when the next "Black Swan Event" comes along, the market "thinks it knows" something dreadful all over again.

We'll take a deeper look at "The Coronavirus Hole from which It Will Be Tough to Escape!" and "Oil Market Meltdown!" later this week. For tonight, let's just glance a little history.

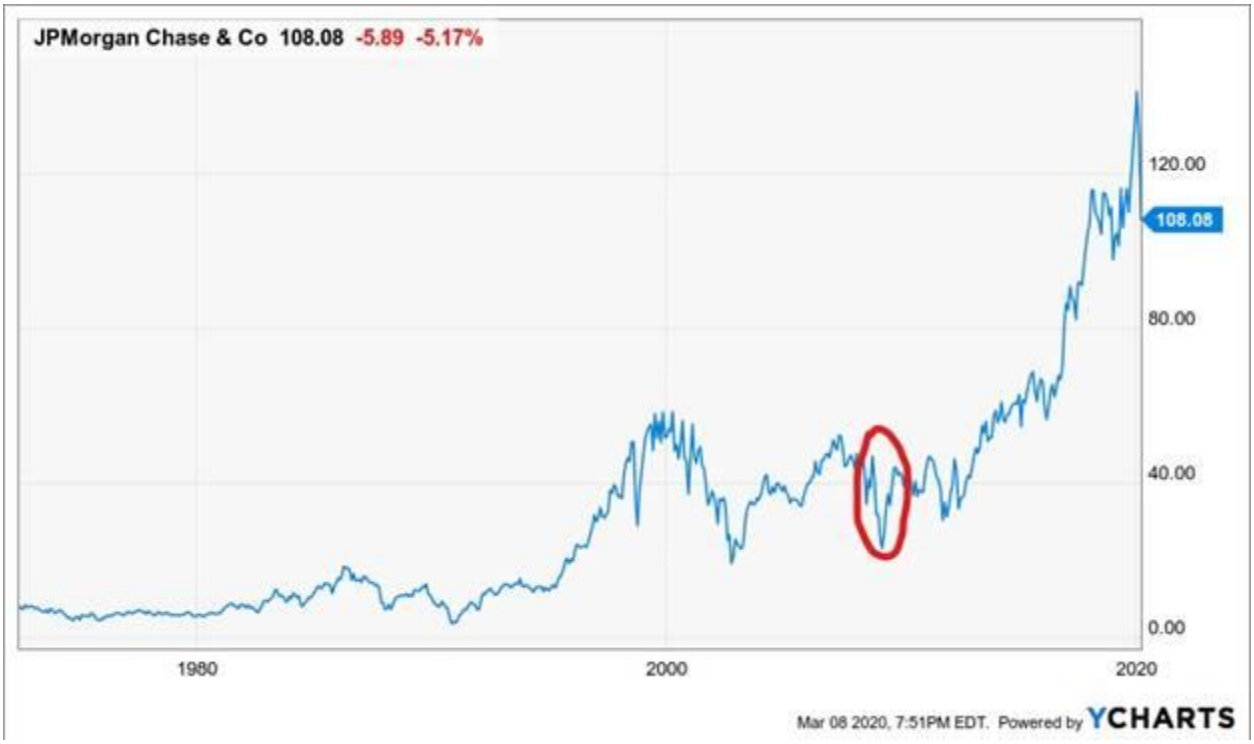
**Caterpillar, May 2008 to March 2009: the last "plunge into an escape-proof hole," etc.**


There's Caterpillar, falling from $83 to $25: down 71%. It was the "Great Calamity" and financial panic of 2008 – 2009, when the market thought it knew perfectly well that there was no way out of the world's "economic hole." CAT's $25 price, down there, made sense if the world was going to go back to picks and shovels for its construction projects, for the foreseeable future. For investors who declined to wallow in that nightmare, $25 was too silly for words.

**The next 11 years. Apparently the hole wasn't tough to escape from, after all.**


And apparently $25 was indeed too silly for words. CAT rose 500% (to the market's 340%) from its "hole." It did a lot of that rising in the first couple of years.

Finally, here's JPMorgan falling into the same hole, back then. The red-circled plunge doesn't look like much now, but it was a 53% drop in the strongest bank in the US, if not the world: a bank which every banker from Wall Street to Main Street knew had the strength to survive the "calamity" surrounding the world's banking sector. No matter, at the time the market "thought it knew" something terrible about JP Morgan.




And here's what happened after Morgan fell into its escape-proof hole:

**JPMorgan from the bottom of the hole: up 510%. The market: 340%.**


The point of harking back to the 2008 – 2009 Great Calamity is <u>not</u> to predict another one like it. At Outlook we doubt it extremely. The point is that the market <u>never</u> "knows something we don't know,"

even in the midst of plunges into genuinely frightening economic holes, which justly describes the Great Calamity. All the market cares about, when something (like today's "Pandemic and Oil" nightmare) comes along that seems likely to be fearful for a while, is betting on the roller coaster as it swoops down, while being ready to reverse the bet in a flash when the roller coaster looks like it might start climbing again.

The point for us investors is a little different, but ever so simple and old. We don't sell low. We buy low. That's always required nerve and patience . . . and it's always paid off in a pretty spectacular way.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