

The Outlook: March 20, 2020

The actual Virus facts will be known . . . eventually.

“All of California’s 40 Million People Under Lockdown!” said the morning headline, and by the afternoon New York and, yes, Illinois joined the lockdown movement. They all followed in Europe’s footsteps, of course, with Italy, France and probably others already ordering their citizens to stay home (except for a variety of exemptions.)

That’s why the market gave us another 900 points of cliff-dive today. The market doesn’t “know” how broad, deep and lengthy the economic damage from an economic shutdown will be, though all the experts are making their best wild guesses. But the market “knows,” correctly, that it’s sure not good . . . and that’s all it needs to plunge even deeper into the world of the bizarre, when it comes to stock prices and valuations.

At Outlook we’ve very often remarked about the media’s need to terrify us whenever it possibly can, as a means of business survival. We are seeing that every day, all day . . . these days. All those journalists and headline-writers don’t think of themselves as deceptive people, though. If any of us, in the media’s place, had the chance to write a spectacular and frightening story about something, while knowing in our bones that such stories meant good things, financially, for our businesses and ourselves, we would find it pretty hard to think entirely clearly about the subject. We would find it very easy to run the “facts” through the filter of the kind of story which would help us personally, and conclude that the “facts” entirely supported the headline we felt like writing.

It’s just a long way of reminding ourselves to take every awful story and frightening headline with a giant grain of salt, always—especially in times like these.

Here’s a sample “grain of salt” for today.

We are hearing every day about 2 things: skyrocketing “infections” and skyrocketing “mortalities.” “The number of infections in New York nearly doubled to 4,152 Thursday as the state conducted 8,000 tests overnight, Governor Cuomo said.” (That was one line in the Wall Street Journal.) Here, in sum, is what Stanford University’s Professor of Epidemiology, John Ioannides, recently had to say about those kinds of statistics.

“The data collected so far on how many people are infected and how the epidemic is spreading is utterly unreliable . . . We don’t know if we are failing to capture the (true number of) infections by a factor of 3 or 300. Three months after the outbreak emerged, most countries, including the U.S., lack the ability to test a large number of people and no countries have reliable data on the prevalence of the virus in a representative random sample of the general population.”

That’s a scientist’s way of saying, politely, “Is anyone interested in actually doing science, on this subject?”

The headlines’ skyrocketing “infections,” of course, are actually skyrocketing “positive tests.” They’re skyrocketing because we’re giving more truckloads of tests, every day. But that doesn’t tell a scientist anything about the actual number and percentage of infections in the population. As Dr. Ioannides said, “we don’t know if the real number of infections is 3 or 300 times the number of positive tests.” To figure out that number, a scientist would give tests to a random sample of people every day, and see exactly

how many infections there were, and the rate of growth or decline in the rate of infections. (That's doing science.) Nobody's going to do that for a while . . . but there is still a strong argument that the infection rate across the U.S. population is already tremendously higher than those headline numbers. That sounds bad at first, but it's not—it's more the opposite.

In the 4 weeks before President Trump banned arrivals from China on January 31, something like 10,000 visitors from China arrived in U.S. airports every day. The disease began in Wuhan in early December or possibly mid-to-late November. So it's just about inconceivable that the "first U.S. infection" occurred only a few weeks ago. It was, of course, simply the first "positive test." And if the Virus is as quickly transmitted as we're giving it credit for, and as "silent" and fairly harmless in many people as evidence suggests, we begin to see why Dr. Ioannides thinks the true infection number in the U.S. might be 300 times the headlines' "infections." Doing arithmetic, that means the terrifying "mortality rate" (which for the media and state governments, so far, is "deaths divided by positive tests") is quite possibly something like 0.2% to 0.4%, rather than the 2% to 4% headline numbers.

The U.S. economy, and our companies, are going to recover from the hammer blow of this "Virus Shutdown." There will be pain to endure before they do: for the companies, for their employees and millions of small-business workers, and for us investors wondering just how bizarre the market's speculating crowd can make stock prices, before drifting back toward realism. (The answer is usually "Pretty bizarre, longer than we might think," but the answer is *never* "Indefinitely.") Just how long we'll have to wait is mostly in the hands of "government" right now, because government is setting the shutdown rules. It's doing so while leaning heavily on those flawed "headline numbers" about "infections" and mortality rates. But as time passes, the facts which really matter do tend to gradually become more apparent to most people. That will happen again this time, though it won't be very easy to wait.

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