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NEST EGGS

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By Brahm Satov

June is the month of my mother's birthday, she will be seventy-eight this year. In her younger years, my mom would look after my sister and I, her nest eggs of sort, and I thank her for that. However, everything in time changes. I have been discussing change for the past many months. I have even warned that the probability of a market correction was rising. I wrote, "Better Too Early than too Late", in regards to repositioning investment portfolios, back in April, before the equity markets really started to melt.

Although we are rarely, if ever, 100% certain of an imminent correction, after all no one has a crystal ball, I did say that in my opinion- the probability of such had been rising and suggested that portfolios be adjusted accordingly. Over the past many years, investors have become accustomed to seeing their portfolios rise month after month. However, given the recent fall in the stock and bond markets simultaneously, many have seen profound corrections in their portfolios of late, especially those with exposure to technology and/or cryptocurrency.

Many have postulated as to why. Why now in terms of the downturn? In my opinion, the downturn started in November of last year; that is when I started to suggest a more cautious stance as that is also the time when central banks shifted to a more hawkish stance. It makes sense that if easy monetary and fiscal policies, including unbelievably low interest rates helped fuel the stock markets, then as these move in the other direction, equity markets could have difficulties. In these more volatile markets, most do nothing, or like the well-known myth, like an ostrich, stick their head in the sand and hope that things improve.

It is my opinion that, many brokers and investors do fine in the up markets, and some certainly outperform others; but those who outperform in the more difficult times- really make the difference. It is just math, if a portfolio goes down by 50% in difficult markets, a retracement of 50% will not bring it back to breakeven. If someone invests $100K and loses 50%, or $50K, if they then recover by 50%, they would then see their portfolio rise back to $75k. In other words, they would need to see their portfolio double, or go up by 100% to get back to break even if they lost 50%. This is perhaps why Warren Buffett's rule number one is "don't lose money" and rule number two is never forget rule number one. Even Warren has had down years. I did some analysis some time ago, and it showed that if someone underperformed the equity markets for more than 30 years by 3% each and every year, but when the markets went down or suffered down years, they limited the annual downside to -4% in these tough times, they would have considerably outperformed the markets.

For those who have experienced a bear market, know that it is normal to have reflexive rallies or, bear market rallies. Many have asked how long this turbulence will last, in my opinion, they will not end until, at the earliest, the Fed is done raising interest rates. I do not believe in sticking your head in the sand. I believe that as the probability of a correction rises, investors should become more defensive and conversely when the probability falls, investors can consider getting more aggressive.

We have seen these cycles before and I do expect that central banks will eventually capitulate and move from their hawkish stance, that of fighting inflation, raising rates, to a more dovish one whereby they will get back to stimulating the economy with lower rates, more QE, etc. Once this happens I would expect markets to perform better. When stocks go down in price, they become cheaper, and for those who are patient and holding cash, this could turn out to be a great opportunity to buy solid businesses at low prices. In addition, when the Fed does become more dovish- and stops raising rates, or pivots, I believe precious metals, gold and silver, should outperform in this phase of cycle.

Keep in mind that the stock markets are a market of stocks. For those who are invested in great dividend paying businesses, and the underlying operations continue to do well, no need to panic. Keep in mind another of Warren Buffett's mantras, "The stock market is a device for transferring money from the impatient to the patient." Some may know that ostriches actually do not bury their head in the sand when scared or frightened. However, they do dig shallow holes in the sand to serve as nests for their eggs and stick their head in the sand to monitor them. I continue to recommend a more cautious stance on the markets and to keep an eye on your nest eggs. As for those with cash, on the other side of bear markets are great opportunities.

Sincerely,

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