**What to Do With Market Uncertainty - Transcript**

**DISCLAIMER: Tom Mullooly is an investment advisor representative with Mullooly Asset Management. All opinions expressed by Tom and his podcast guests are solely their own opinions and do not necessarily reflect the opinions of Mullooly Asset Management. This podcast is for informational purposes only and should not be relied upon as a basis for investment decisions. Clients of Mullooly Asset Management may maintain positions and securities discussed in this podcast.**

**Tom Mullooly:** Welcome to the Mullooly Asset Management podcast. This is episode number 297. Thanks for tuning in. This morning, I'm recording this on Thursday morning, March 5th, at about 8 o'clock in the morning. Futures at the moment are pointing down 450 points after being up 1200 points yesterday, down 800 points Tuesday, up 1200 points Monday. So the story seems to change every single day on Wall Street. So let's just look at it a little different way. We were up 1200 on Monday. We were up 1200 on Wednesday. In between we were down 800. That's a 1600 point advance in the Dow after three days.

What will today bring? You don't really know. You look at, I get up in the morning and I look at the futures. I see futures down 400 points and I want to know why. Why? Why, why, why, why, why? What's going on with this? And I know that when folks call us, they also want to know why. And so I keep thinking about that Beatles song, Helter Skelter. "Tell me, tell me, tell me, come on, tell me the answer." People want to know what's going to happen. They want to know the future. And that is impossible to tell.

The first thing you need to know is... Some people want to know the future, like, "What's going to happen by four o'clock today with the market?" Some people want to know what's going to happen this month. Some people want to know, "What's going to happen to my future?", which could be the next 15 or 20 years. Everybody's got different perspectives and different outlooks. And so we try and answer as best we can.

There's usually a short-term story, an intermediate term story, and a long term story. But, you know, you get to the office, you click on the Wall Street Journal, wsj.com. The first thing you see is, "Virus Jitters Return," and then right underneath it the subheading is, "Investors are Uncertain."

There's that word again, uncertain. Investors are uncertain about the economic fallout from the coronavirus. The market just doesn't know what kind of hit we're going to take. Are some of these hits, to earnings and to some specific companies, are they going to be permanent? Are they going to be something that will one quarter? Something that will last two quarters? Really hard to tell.

So I want to spend some time this morning just running through some of the headlines that we see this morning before the market opens. I know that all of these are going to change by tomorrow, and maybe by the time you listen to this. But I want to capture the sense of what's going on out there to give you a real time look at how stories are being written and how the narrative is being played out.

So a couple of headlines to start off with. "U.S. Airlines Won't Need a Bailout Despite Coronavirus Woes." Okay. I don't know about you, but I wasn't even thinking that the airlines were going to need a bailout. Were you? I was stunned to read airlines and the word bailout in the same headline. And then if you read the story... A lot of people don't, they just read the headline and they move on to the next story. They say, "Oh, that's good. They won't need a bailout." What happens when they might?

So unfortunately, the quote was from no one at the airlines. It was from the President of the United States Chamber of Commerce. I don't think this guy sits on the board of a major airline, so I don't think he knows. That would be if they quoted me for these kinds of new sources.

One of the other things that really is unfortunate is that the way the stories are being reported lately is, you're hearing about the total number of cases of coronavirus and you're hearing about the number of fatalities, the number of deaths, that are happening with it. We have a couple of websites that we've been checking every day. The first one is the John Hopkins map. And the second one is a site called World O Meters or Worldometers. You can get a lot of information from there. It's updated throughout the day.

But one of the things that is not actively reported is the number of active cases that continue to drop. Now think about this. If you're not an active case, it means you've recovered, or unfortunately, you've died. Everybody seems to, the press seems to be reporting the total number of cases and the number of deaths, but it doesn't mention anything about the active number of cases and the number of people recovered. So I just want to give you some perspective on what's happening. On Monday, and this is day to day. On Monday, there were 44,000 active cases. On Tuesday there were 43,000. Wednesday, 42,000. Today there's 39,000.

Now one thing I will tell you is that these sites are not actively reporting United States cases yet. They just, believe it or not, the United States just started tracking cases this week. We're going to learn in the next few days, or in the next week or two, that there's going to be a spike in the number of U.S. cases. I would imagine that the market might take another hit when that number starts being reported.

But what I want you to focus in on is the trends. Look at the trends. The numbers spiked in China in February. They are already declining. The numbers spiked in South Korea. Numbers are already declining. So we're starting to see that there's a spike and then numbers start to subside.

So how does this all tie in with the market? So we're getting a lot of volatility right now. Volatility, it may be the friend of a daily trader. It is not your friend if you're an intermediate to long term investor. And so when markets put in a bottom, which is what they're trying to do right now, it's a process. It's not an event.

You can't point to something and say that's the bottom of the market. We do it for fun on Twitter. But you can't point to a specific trigger event and say this is going to be the bottom. Making the bottom in a market is a process. Just like making a top is a process. So it's a process, not an event. I am not precisely sure where we are, but we may be very close to putting in a bottom. And the market, because of the volatility, it's testing to see where we're going to start to see demand outstrip supply. And when you have more demand, prices will rise. So that's why we have these kind of zigzag patterns like we're having last week and this week. Most of the patterns last week were down. But this week it's been one day up, one day down, one day up, one day down so far.

So again, don't have active U.S. cases reported yet. So I expect that there'll be another shock when that number starts to get reported. And the market is in the process of putting in a bottom. So we're going to see this volatility back and forth until we build a bottom and then start to move forward.

In my opinion, the people who are flipping out the most about the market, who are people that are, we use a phrase here in the office called, these are people who are betting the rent. So they're betting the rent check on their horse that it comes in. So these are, the people who are flipping out the most about the markets, are people who need money, or need the money, or have money problems, and they're very nervous about this.

That is a red flag and a sure sign that you have, if this is you, you have too much money in the market. You have too much money at risk. And it's inappropriate for you to have that kind of situation. We have rules. I know I've mentioned this on podcasts and videos, especially lately. We have rules for how we manage your money at Mullooly Asset Management. We stick to those rules. And I think the first rule is we don't get sucked into the emotions of what's going on in the markets.

So I want to just share with you the headlines that are on the Wall Street Journal and Bloomberg this morning, just to give you a taste of the insanity that's going on out there. So the lead headline at six o'clock this morning is, "HSBC," Hong Kong Shanghai Bank, "HSBC Evacuates." Evacuates. That's a strong word. HSBC evacuates some London workers. People are starting to behave irrationally.

If you read just the headlines, it's going to look bad. So I want to share with you what's below some of these headlines. HSBC evacuated some employees from its London office after one worker tested positive. Very next line. Italy is preparing a stimulus package worth about $5.6 billion to counter the worst outbreak in Europe. By the way, last night Congress approved an $8 billion package, being ahead of the curve. So we've got monetary backstopping and we've got fiscal backstopping to help shut down the spread of this virus. Or at least provide some methods for quicker recoveries and not sustaining this.

Next paragraph you have... The further you read the news, actually the further you read down storylines, the stories seem to get better. Here's another one, same story, same report from Bloomberg, "Fatalities from the outbreak moderated in China." That's good news. Cases appear to slow in South Korea. Also, good news. They reported this London office getting evacuated, that's such a strong word, in London.

Some other things you should know. Southwest airlines cut their outlook. Of course less people are flying, less people are buying tickets because they're concerned about this virus. Also, OPEC agreed to cutting their output in the short term to offset the hit that they're taking to demand because of this coronavirus. We mentioned that Italy's preparing a stimulus package of almost 5 billion Euros. Iran, they now said that active cases tops 3,500.

Remember in this business, a lot of people aren't reading physical newspapers anymore, but they're reading the news online. Clicks sell. If you click on a headline, that's good for these media companies. So one thing that made me scratch my head, Japan announced that they're going to quarantine visitors from China and South Korea. Sounds good, right? They're going to start next week. Why are they waiting? I don't really understand the logic behind that. So the bank of Japan is putting together steps to help companies that are going to be affected or are affected by the outbreak of this virus.

A lot of companies are now going to start putting out earnings warnings saying, hey, we may not reach our earnings goals that we set last quarter and the previous quarter for this quarter. I think that's understood. And I think as long as it's not used as an opportunity to throw in the kitchen sink, I think most companies are going to have a narrative that goes something along the lines of, first quarter probably going to take a hit. Second quarter might see a recovery. Or it may be a situation where we see second quarter hit to earnings, third quarter recovery. So market's going to be a little bumpy because the market does drive on two main things, interest rates and earnings.

So one thing buried at the very, very, very, very, very bottom of this news article: China consumption rebounded in late February. Daily sales and retailers resumed growth in late February with a strong recovery in auto demands. Also right below that: Chinese shares. Now the mainland China markets closed to a lot of outside investors, so it's not something that we can actively participate in. Chinese shares jumped to their highest in two years, erasing the declines of the last two weeks fueled by the coronavirus update.

We're starting to see some of the markets that were first hit, like China, start to come back. So we're starting to see recovery. This one we also spotted only because it's an attention grabbing kind of headline. Governor of California Gavin Newsome declared a state of emergency, because there's a cruise ship off the coast of California. There's roughly 1200 people on the cruise who are from California, so they're being a little proactive about that.

That's just to give you an idea of what's going on in there. The headlines are really messy right now. There's actually some very good news, but it's being overwhelmed by bad news. Don't let that discourage you from hanging in there. If you're worried about the short term hit to the market, which may be this quarter and may spill over into next quarter, it's logical and totally not out of order. So if you're worried about that, call your investment advisor. Call your financial planner. Call us. We're happy to speak with you about your concerns.

The other thing that we will mention is that when companies report earnings or when the government reports statistics, we are in the midst of that time of the quarter where we start to get, well, tomorrow's the first Friday of the month, so we're going to get employment numbers. The employment numbers are going to be good. The estimate is somewhere in the range of 183,000 new jobs were created. But that was in February, so we won't get the March numbers until the first week in April. Likewise, remember we're in March, so it's the first quarter. So we may see a drop in the growth of the economy in the first quarter. Will that spill over into the second quarter? We won't know. But we won't get GDP numbers for the first quarter until May, the beginning of May. And then they'll be revised and then we'll get a revisions up until the end of June, and then we'll get, in July we'll get the indications for the second quarter.

So these all have a lagging effect. It's important to know when you're looking at economic news, what's a leading economic indicator? What's a lagging indicator as well. A lot of moving parts. A lot still going on. I wanted to hop on here and provide our listeners with an update. I hope this has been helpful.

This has been episode 297. Check back for more updates soon.