The Game Plan From Here - Transcript

Tom Mullooly: Welcome to the Mullooly Asset Management Podcast. This is episode number 299. Thanks for tuning in. We have a special presentation today, because we are three of us here behind the mic. We have Brendan, and Tim, and myself, Tom Mullooly, here to talk about what's going on right now. We're recording this on the first day of Spring 2020, March 19th. I'm going to kick it off by just throwing this open for discussion. What kind of things are we hearing now from clients?

Tim: Hello, everybody. This is Tim-

Tom Mullooly: From Living With Money.

Tim: Yeah, it's been a wide range of questions from clients. In my experience, most of the people that I've been talking to just want to get reassured about what's going on. It's not necessarily high panic, "Get me out, I need to save all my money. Get me out of my investments now." It's more just calm, "What's the game plan? I've seen that things are a little crazy in the market right now, and just want to be reassured that we have a plan in place."

Brendan: Yeah. I think mostly, if people are concerned, it's more because of real world implications than their belief that the market is not going to come back. I think that everybody out there who has money in the market implicitly has to believe that the market's worth having their money in, meaning the economy of this country, and people in general, are going to rebound from this like we have from many disasters before, and pick up and move on with our lives. And I think if you have money in the market, you believe that. However, some conversations have been more about, "Hey, I'm a little less certain with my job now. I never thought that I would have to use any of this money. What if I do?" Because those real world changes are things that we actually would consider changing an investment plan for. Not because, "Hey, we got to react to the market, or we need to trade what's going on right now."

But if something has changed dramatically in your life, and that changes your horizon or your need for this money, that's something to communicate. It may still may not be a great time to make changes now, where stocks are trading 70-80 cents on the dollar from where they were a month ago, but it's at least worth discussing. And so some of those things have unfortunately come up, because there's a lot of uncertainty right now about what is going to go on with the economy and working for a lot of people for the next three to six months. We just don't know, more so than we normally don't know.

Tom Mullooly: Brendan, you have an analogy that you've shared with a few people over the phone and when we were having meetings about if you were investing in a home. You want to just share that?

Brendan: Yeah, if you bought a home for $1 million, and somebody came to knock on your door today and offered you $700,000 for it, you'd probably tell them to take a hike. Because why would you take a discount unless you absolutely had to? If you, for some reason, had to move then, yeah, you're forced into whatever the market will give you at that point in time. But if you don't have to sell, and the prices that you're currently being offered are not what you think your investments are worth, then I don't see a reason why you would sell if you don't have to.

Tim: It's tough too because I think that this has all happened so quickly. Seemingly, in terms of market time, it's happened almost overnight for people. You wind the clock back like six, seven weeks, and everyone in terms of their finances isn't really having that much stress put on them. And then almost at the snap of a finger, it's like, "Oh my gosh, what are we going to do?" This all came at everyone so fast that it was hard to react, or know how to react, or plan for it, or have something. You just didn't see it coming.

Tom Mullooly: Just as a point of reference, today, we're recording this on March 19th. It was a month ago today, February 19th, that the market hit all-time highs.

Tim: It feels like five years ago now.

Tom Mullooly: It's does. It really does.

Brendan: Yeah. Time definitely appears to slow down when the market is doing what it has been doing.

Tom Mullooly: I'll concur that I've been hearing the same kind of things from clients as well. They really want to know what the game plan is going forward. Happy to see that. It's important to manage expectations, not only in good markets, but in bad markets too, or before we go into bad markets. So what are the kinds of messages that we've been sharing with people.

Tim: For people that are calling, wanting to make decisions like that, or potentially take some money out of the market, or even get all the way out of the market, we're just trying to reinforce that now is not really the best time to be doing that. It's, in the long run, probably going to look back and look like a mistake. In the short term, it could be really comforting for you, knowing that you're out of harm's way, so to speak. But in the long-term, I think it's going to end up costing them some money.

Tom Mullooly: And Brendan, this is something that you and I have discussed also, in that when you do pull the trigger and decide, "I can't take this anymore, I'm just going to move to the sidelines." You actually do feel good for a day or two or sometimes a week. But like Tim was saying, in hindsight, we think this is going to be, as it has in the past, been a bad decision.

Brendan: Yeah, at that point, if you're all in cash, you're basically rooting against the market at that point, and although recent memory wouldn't serve you any of this, if you've only been paying attention for the last month, but in regular times, which are not a crisis like this, the market generally goes up. We have the stats. Day to day, it's a coin flip. Doesn't feel like it's been a coin flip lately. It just feels like it's down all the time.

Tom Mullooly: 50 tails in a row.

Brendan: Right. The longer you stretch that out, the odds only go up from there, from 50% towards 100%. If you get out to, I think a 15 or 20 year period on US stocks, there's never been a rolling period where we were negative. And if you're at 10 years, you're upwards of 90%. And I would venture to say that starting after a 30% drawdown on the market, those odds are probably only better.

But if you're in this position of having gone to cash, right now, it probably feels good because you're rooting against the market. And in the short term, it may seem right, because we may have more days in a row that just string together and seemingly, market does nothing but go down. But eventually when that tide turns, you're going to be in a position where you're rooting against something that is no longer occurring with regularity, and the market's going to be up, and it's going to feel really weird to have to turn face again and then decide to get all the way back in, or whatever the case might be. I think it's important to consider too, if you absolutely have to make a move for your own peace of mind in a market environment like this, to consider the idea that it does not have to be an all-in, all-out proposition.

Wherever you're at with your portfolio mix, you could do something more incremental that maybe lets you feel a little bit of that short term relief in the moment, but doesn't get you all the way to where your urges are pushing you. And I think in the long run, if you can avoid treating the market like a light switch, on or off, I think you're going to be better off for it. Because I've got to tell you, there are not many people out there that can flip that switch with any kind of reliability or consistency. You might get right once or twice, but you're certainly not going to do it time and time again. And all you're doing when you're doing that is eroding your own returns, because you're missing performance in the interim.

Tom Mullooly: Brendan, you've been on board since 2012, Tim since 2014. Technically, you guys earned your bare market badges with this drop. But I would venture to say that that period between 2015 and 2016, where the market went down, then kind of leveled off, it really did nothing for about a year and a half.

Brendan: The average stock went through a drawdown of 25% in that period. And average New York stock exchange stock went through its own bear market at that point. Even though the headline of S&P 500 and the DOW didn't quite get there. They only got to, I think, around 15% or so.

Tom Mullooly: And then also, the very quick drawdown in December of 2018, which came right back in January, February.

Tim: 19.8% or something like that. So it's a rounding error, but that was essentially it. Also a very quick bear market too.

Tom Mullooly: So we saw in 2011... Everybody says, "Oh it's the end of the longest bull market in history." But in 2011, when the US debt was downgraded, we got a similar kind of move that you just described. We were down like 19.8% using closing prices. Intraday, we were down over 20% on the S&P 500. The drawdown that you just talked about between 2015 and 16, where individual stocks were down in excess of 20%, some down more than 30%, so they went through their own individual bear markets. I look at this and say, "Okay, what's going on through your mind as you come to work each day for the last couple of weeks?"

Tim: If we're being honest, I'm kind of exhausted. Yeah. It's watching the day to day moves in the market go up and down, and with the magnitude of them. The market goes up and down every single day, but watching it go 10% one day in one direction, 10% the next day and the next direction. We tell clients all the time like, "Don't watch the market on a day to day basis. It'll make you crazy." And that's only when it's moving a couple of points here and there every day. Watching the way it's been moving the last couple of weeks is definitely taxing.

Brendan: I'm also just trying to remember, as best I can, what's going on right now. Because I think that these sort of times, since they are a minority of the market, when you look at it in hindsight, these hectic times, they're a minority, people forget what this sort of stuff feels like, and sign up for more than they can handle. I think it's important to just remember how it feels to go through something like this. Because I think if people were more honest with themselves, they would take a whole lot less risk than they usually want to sign up for when times are good. And I think you need to balance those two things. I don't think you want to be too far in either direction, pessimistic or optimistic. But there's certainly more opportunity to be overly optimistic just by nature of how the market works, being up most of the time.

Tom Mullooly: One of the things that we've gotten in the habit of reminding clients, especially over the last year, is that, "Hey, if you signed up to be aggressive, that works both ways. It's going to be aggressive on the way up, but it also means that you're going to be bearing the brunt of the hit on the way down. That's what being aggressive comes with." Having said that, I've marked 34 years as a broker/investment advisor this week. So I started on St Patrick's Day in 1986 at Shearson. Prior to that, it was a couple of years at EF Hutton in their financial planning department. These emotions still get me after 34 years in the business.

I want to be, like I said on the video this week, perpetually optimistic. But there are times where I just get ground down to a stump. It's draining. And I will say, earlier this week, I was starting to get pretty despondent in the sense that, you read all of this news that's on these financial websites, you see all of this stuff on Twitter, on social media, where people are basically in one way or another trying to tell you it's the end of the world, and I know it's not, but it's hard to look for what some of our friends call green shoots, little seeds of hope that are actually coming out. And there's some of these memes that people share on social media, where they talk about, in bear markets, you get to a point where you're so down that you don't even notice some of the good news or some of the good headlines that are coming, until the point where the market's already started to recover. You agree with that?

Tim: Yeah, definitely. I think it's easy to get wrapped up in how things currently are. Like right now, like you're saying, it feels like we'll never see good news ever again. I talked about on Living with Money this weekend, wrote about the same thing. On the flip side, we were just saying the bear market lasted since, however you want to measure it, 2009, 2011. Still, it's a long time. There was a long stretch of really good returns in the market and the economy as well. That's why, when we'd explain to people, "Hey, if you want to be aggressive when the market's going up, it's going to be the same on the way down." We get a lot of people shaking their heads yeah, like, "Okay, we get it." But it's hard to take that seriously when-

Tom Mullooly: The phone calls still come in.

Tim: Yeah. It's hard to take that seriously though, when it hasn't happened in a really long time. So I get it to an extent. This kind of just serves as a reminder that the way that things currently are, it's not going to be that way forever.

Tom Mullooly: I'm also going to add that, in terms of some of the good news that we've seen this week, I can tell you that the steps that the Fed took starting Sunday night, with their big bazooka of lowering rates 100 basis points to 0, and $700 billion of quantitative easing, I believe, without looking it up, that's larger than any other quantitative easing program that they did, in the time after 2008. But lowering rates, quantitative easing, the other thing that they did, which they announced last night, is they're backstopping all of the money market funds, which honestly, I didn't think they needed to do, but the short term bond market and commercial paper market is apparently in complete disarray right now. That market is locking up.

And so I will tell you that what the Federal Reserve has done in just the last week, took them almost a year in 2008. And so the speed at which things are getting done is really amazing compared to the last time around, when we needed things like this. Along the same lines, March 9th, we saw this oil war begin with Saudi Arabia and Russia basically saying that they're going to pump oil at will to drive the market down. I was very surprised to see that US producers have been doing the same thing. So they have decided that they're going to play alongside the Russians and Saudi Arabia. In the last week, they've pumped over 13 million barrels of oil, which is a very, very high number. There was a headline this afternoon that, going to try and broker some kind of deal between Moscow and Saudi Arabia. So hope, even in the oil patch, for some of these things to work out.

Brendan: Yeah, just the general theme of what you're talking about is that there is good news out there that's being over-weighed by bad news right now, and that's why things look bad. But we're not going to stop and throw a party and announce when the bottom of the market is. That tide is just going to slowly turn. But if you are waiting to feel equally as ecstatic as you are despondent today, you're going to miss a lot of the recovery if you're trying to catch bottoms and go all in, all out. And I just don't think that's a reasonable game to play, and I don't think you need to play it to be successful in the markets.

You look at long-term returns, when we look at those big charts that go from the bottom left to the top right of what the market has historically done for you, and every stretch like this one is included in there. You didn't need to nail the top, and then buy back in at the bottom to get those returns. You could have just sat tight. And that's not easy either. But I'm saying, you don't need to play that game if you want to earn the long-term type of returns that we get from stocks. You don't have to do it that way.

Tom Mullooly: I'm trying to think of that spaghetti sauce commercial where they used to say, "It's in there."

Tim: It's in the sauce.

Tom Mullooly: Yeah, it's in there. If you look at a long-term chart of the market, and long-term can be like the Ibbotson chart that goes back to the 1920s, or even something that goes back 20 or 30 or 40 years to 1980, you're going to see all of these events that have happened in recent times, and market continues to plow along. It's in there.

Brendan: I think you just got to put yourself in a position to not become a forced seller when these periods occur, and you too can reap the rewards of long-term stock returns. Because if you're not a forced seller, whether that means mentally or actually monetarily, because you didn't have enough outside the market to get through times like this, if you don't force yourself into that kind of a position, then you don't have to jump in and out to win.

Tom Mullooly: I have spent a lot of nights lately reading more and more about Warren Buffett, and how this guy just remains so stoic through good markets and bad markets. I think that really helped.

Brendan: Yeah, everybody loves quoting Buffett when the market's going up, and for the first 10 or 15% of a drawdown, it usually is Buffett quote time too. But I think we've reached the point in the cycle now where nobody wants to quote Buffett anymore, even though these are the times that he actually meant to apply his quotes to, about having fortitude, and hanging in there, and not overreacting, and margin of safety. These are all concepts that are important during bear markets. And just a note, where we are in the current drawdown is about the historical average for bear markets. So this is not worse. The speed, the velocity at which this has occurred, it's different. But the magnitude, in terms of where we're at, this is pretty much the average, run of the mill bear market, if there is such a thing.

Tim: I think it's a testament to how difficult it is to have that fortitude and hang in there. Because, you think about how many people have invested in the stock market over the history of the world. And yet, we only talk about like one, two, or three guys every time. It's Buffett, Munger, and a couple other people. We just keep using those quotes. They are three or four people out of millions and millions of people. It's tough to do.

Tom Mullooly: The other book that I picked up very recently was the book by Charlie Ellis, where he talks about making unforced errors or avoiding unforced errors.

Brendan: The tennis analogy, right?

Tom Mullooly: Right.

Brendan: He says that professional tennis players win their match by actually beating their opponents, because they're all so skilled that they have to have that extra inch, where they can outsmart or just better their opponent in whatever way. But for the amateur tennis player, if you're just playing pickup at a club or a local court, is more just about not hitting the ball out of bounds or doing anything stupid. And if you can just hang in there long enough, the other person will probably make a mistake, and you win by default.

Tom Mullooly: Thanks for tuning into episode 299. We'll have to wear a party hat for our next episode, episode 300. Thanks again for tuning in.