The State of the Stock Market and the Economy - 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 in securities discussed in this podcast.

Tom Mullooly: Welcome back to the podcast. This is episode number 333. 333. I'm Tom Mullooly and joining me today is Tim Mullooly. Good morning.

Tim Mullooly: Good morning. So we're recording this the day before Thanksgiving. Ready for some turkey and stuffing tomorrow?

Tom Mullooly: I'm ready.

Tim Mullooly: What's your favorite Thanksgiving food?

Tom Mullooly: I'm going to go with stuffing.

Tim Mullooly: Okay.

Tom Mullooly: But I'm also going to emphasize, as long as it's hot, that's the main... It's got to be hot. Like cold potatoes, no good.

Tim Mullooly: Yeah, of course.

Tom Mullooly: No good. No good. Yep. So how about you?

Tim Mullooly: Big mashed potato guy. Looking forward to that.

Tom Mullooly: I'm thankful.

Tim Mullooly: Yeah, absolutely. It's been a wild year as we've chronicled in the podcast here in 2020, so definitely a lot to be thankful for as we get into Thanksgiving tomorrow.

Tom Mullooly: You sit here and you think about things that you're thankful for. In a way I'm thankful for all the volatility that we had this year, because it's provided a great opportunity to talk with clients and just kind of remind them that most of the money that we manage is long-term in nature. In fact, a lot of it is in retirement accounts. And this is money that really should not be too tactical or traded on a frequent basis.

Tim Mullooly: Yeah, it's been a really eye-opening year in the market, and it kind of just gave us the opportunity to stress the fact that we need to trust the process that we have here. For us too. Even when the market was going down a lot in February, March, there were some really,

really volatile times during this year and it put things to the test, but the process held strong throughout the year. And I think it was a really good opportunity multiple times to kind of reinforce why we do what we do.

And it shows, like you said, with long-term money, the crazy fluctuations that you're going to see over a couple month span or a couple of weeks, or even just one calendar year, it's going to send you on a rollercoaster ride sometimes. But keeping an eye on what matters in the long-term, it really benefited you this year in 2020.

Tom Mullooly: I think investors were harmed if they read the news headlines and tried to take action based on that.

Tim Mullooly: It's tough. I mean, we had every sort of headline thrown at us this year. There was many, many opportunities to get scared. Rightfully so, but it doesn't necessarily mean that you should make scared decisions about your investments. I mean, you can be frightened about what's going on with the virus or however you feel about other things going on in the country, in the world, but being able to separate the two things, your emotions from what you're doing with your investments, it's crucial.

Tom Mullooly: One of the things that we had heard for nearly 10 years going into 2020 was all of these people who are in the market or many of the people who have been in this market haven't really been through a bear market. And admittedly, I don't know if this really qualifies as a bear market. It certainly qualifies as a recession, but I think everybody earned their bear market stripes this year.

Tim Mullooly: It's funny because now we saw the market go down. It was like 35% in six or seven weeks. But with how fast it came back, people are going to say, "Well, you still haven't seen a bear market. That wasn't a real bear market. It was too quick." It's like, well, stop moving the goalpost here. That counts." What happened this year was very scary and it tested a lot of people. Looking back on it, we don't know what's going to happen in the future. But looking back on it, it was a good learning opportunity for a lot of young people in the market and the industry, myself included.

Tom Mullooly: Going into 2020, throughout 2019, I heard a lot of forecasters say that we're due for a recession. I'm going to go back to the same guy I've been quoting all year Fed Governor James Bullard. He's a great guy. If you see his name, he's a very energetic guy. He gives a lot of interviews, and he always has something upbeat and positive to say, even when times are tough he usually finds a silver lining. I like following him because he usually has the big picture in mind.

In the beginning of the year, when things were really bad, he was one of these folks that came out and said, "This is not a typical recession. It's a man-made recession. In fact, it's a shutdown. It's a manufactured type of economic slow down. Not your typical type of recession that we see." And that was a message that I carried to a lot of folks on the phone at the beginning of this year that this is a man-made recession. It's a man-made slow down. We shut down many parts of the economy.

Just last week he came out and said, in his opinion, the recession ended sometime in late May, early June. But the textbook definition of a recession is two quarters with negative GDP, which is gross domestic product. So we did have a negative quarter in the first quarter of this year economy because of the pandemic. Slowed down about four or 5%. And then in the second quarter, we had a massive number like down 35%, and then we had a nice bounce back in the third quarter. We're still compiling all the numbers. So we'll see what the fourth quarter brings.

So technically, we had our two quarters of negative GDP. So we do qualify for a recession.

Tim Mullooly: Yeah, I think that the textbook definitions are one thing, but it's also just like use your eyes. Look out there and see what's going on in the economy right now. I mean, we had another jobless numbers today that went up from last week, which went up from the week before that. Whether or not it was a man-made... It was a man-made shutdown recession. I think you can label it as that, but it still feels the same as any other recession for the everyday people out there. So that label doesn't necessarily matter.

I think it's just the people out of work, I think it's lasting longer than everyone expected. Who really knows? I mean, we've heard news over the last couple of weeks about a handful of vaccines that are on the horizon, which should help in terms of getting things opened up and back to operating relatively normally. But yeah, I think it's just... You sometimes need to separate the numbers on the chart and just like look out at what's happening right now.

Tom Mullooly: What's happening on Main Street.

Tim Mullooly: Right. Exactly. And there's a huge disconnect even... I mean, it's been polarizing this year. There's a catchy phrase that the stock market isn't the economy, and we've seen that to a T, I mean, perfectly this year. Yesterday, the Dow hit 30,000 for the first time ever. And then we get a number today of jobless claims. More and more people are losing their jobs. So it's been a polarizing year across the board.

Tom Mullooly: And I don't think we're out of the woods at all. The stock market is starting to get very disconnected, in my opinion, from what's happening on Main Street. We continue to see, as you mentioned, increase in jobless claims. That's first-time filers. I think that the year 2020 has made some permanent damage, permanent damage to the economy. Business isn't going to be exactly as it was. A lot of times when times are tough, people say, "I just want things to go back to normal." This is the new normal. We have to get used to things being different than they were even a few months or a year ago.

Tim Mullooly: Yeah. I mean, it's been this way for eight, nine months now. At this point, this is normal. For me, when you hear about what's going on in the stock market, market indexes are bumping up on highs it seems like every other week, there's still a lot of turmoil and pain going on in the regular Main Street economy. What do you think that means for the listeners out there, just everyday people who might have some money in the market, but are worried about the economy in general?

What can we take away from that or lessons or advice for people to operate financially in their everyday life?

Tom Mullooly: Well, you kind of have to take off your stock market hat and put on your financial planner hat. Look at your balance sheet and look at your income statement. We spend a lot of time with clients working on projecting your cash flow and seeing what your balance sheet looks like. And in recessions, no matter what length or time or depth of recessions, if you have a clean balance sheet, don't have a lot of debt, you have cash, and you have investments, you're probably going to be okay.

I think the winners that come out of this recessionary period are going to be the ones that have clean balance sheets. They have cash on hand, so they can continue to operate no matter what's happening. If their cashflow gets temporarily disrupted, they are not servicing a lot of debt, they have some investments, and they know that their long-term, I think they're going to be okay. Because as I mentioned a moment ago, I don't know if we're going to be out of the woods. I think the phrase that we'll hear in the first quarter of next year will be double dip recession.

We had maybe a brief violent recession in the first and second quarter of this year, stretching into parts of the third quarter. I think that these people who are losing their jobs now in the fourth quarter of 2020, I think that's going to have a serious impact. We may be talking about a double dip recession. The stock market can take a lot of good news. But after a while, they're going to get weary.

Tim Mullooly: Right. Yeah. I think for me, it just says you need to be well-rounded in terms of your financial picture. Like you said, take the stock market hat off and put on your financial planner hat. Your investments are only one portion of the financial plan. We say it all time. You can't invest your way out of other poor financial habits. So it's great to see the market continue to chug along. But yeah, there's a need for other areas of your financial life to get some attention as well.

Tom Mullooly: In a lot of conversations that I've had lately the last few weeks with clients, we've talked about how well the market has been doing, but it seems to me like many folks have short memories. That's good if you're a relief pitcher, especially on the Mets, but it can be a little dangerous if you don't keep tabs on history and what's going on. I have been reminding folks on several calls lately that let's just roll the clock back eight or nine months. We were told that two million people in the United States were going to die from this virus.

And right now we've got somewhere between 250,000 and 300,000 who have sadly lost their lives because of this. There were folks who were on the phone with us literally panicking, because to many people, if you just go by the headlines, it looked like the end of civilization as we know it. And many of these same people are now calling us back seven months, eight months, nine months later saying, "How can we get more aggressive?" It's a little bit of a psycho market. You kind of have to keep things in perspective and not get too greedy and not get too fearful.

The best part of being an advisor is that you are the double yellow line going down the middle of the highway. You want to be right down the middle and talk people off the ledge from both sides.

Tim Mullooly: It seems like in a lot of areas, it's just been extremes on both sides this year in a lot of different ways. We've gone from extreme fear to extreme greed, back to extreme fear, back to extreme greed. It's tough to kind of level yourself off there. It's nice to have an advisor to bounce questions off of.

Tom Mullooly: Now, you and I do these videos every week, and Tim is behind the camera, I'm in front of the camera most of the time. But for several weeks in October, we were prepping people, telling them we expect the market to be volatile through the election and most likely through the end of the year. And we have had volatility. But I think what a lot of people overlook is if the market goes up, I'm good with volatility.

Tim Mullooly: Right.

Tom Mullooly: We've had this week alone in a short week, the market's up almost a thousand points, like you just mentioned. We went through 30,000 yesterday on the Dow. And I think that people are okay with volatility as long as it's going up. But when they get volatility on the other side, not so good.

Tim Mullooly: We should always expect volatility. That's the thing. People were calling about the election or about what's going to happen with politics in the country and if that's going to affect their investments or not. You can just take whatever the reason is out and I think we should expect volatility. That's always the answer. So it's not like we were saying anything groundbreaking and it's not like it's a right or a wrong answer there. That is always the answer. There's always going to be volatility.

Tom Mullooly: People get hung up on the news headlines about the economy on a short-term basis. We've got an election coming. We're in a recession. We're doing this. We're doing that. So on a short-term basis, one day, one week, one month, one quarter, there's going to be news headlines that are going to trick you into making mistakes with your long-term investments. Long-term five years, 10 years, it is about the economy.

We got a lot of calls in late May, in June, in July, where clients were like, "I can't believe this. We're going to give all these gains back. We went down 35%, 40%, and it came back too fast. We're going to have to give some of this back." You know what? The fed pumped $7 trillion into the economy over two weekends. Just think about that. That's 10 times what they did, 10 times what they did in 2008. We can ride that fed pumping for a long time.

Tim Mullooly: Yeah. I think people say, "Oh, we have to give those gains back." It's like, why? No, we don't. We don't know what's going to happen in the future. I mean, like you said, making short-term decisions with your money based on economic data, like the economy is one of the slowest moving things out there. You get data on like a quarterly basis or a yearly basis and you're going to make day-to-day decisions based on that?

Tom Mullooly: There's this urgency. There's a lot of people who feel like they have to be first.

Tim Mullooly: Right.

Tom Mullooly: And so when they see a news headline, there's a lot of people who want to instead of ready, aim, fire, it's ready, fire, aim. They wind up... That's the trader's mentality. Just shoot. Shoot first, ask questions later.

Tim Mullooly: I have a question for you. The Dow hit 30,000 for the first time ever yesterday. Do round numbers matter in the market? If so, in what way do they matter? And if they don't, why do they not matter?

Tom Mullooly: The answer is they shouldn't matter.

Tim Mullooly: Right, but they do.

Tom Mullooly: So there's a little bit of short-term momentum that happens when you get close to one of these round numbers. Now, my very first year in production as a broker, I spent a couple of years as a financial planner at EF Hutton, and then I became a broker. And when I got licensed as a broker at the beginning of '86, the Dow Jones was at 1500. 1550. It's 20 times higher now 34 years later. I'll say that again, 20 times higher over 34 years. And I know that we did a video about that, so I don't want to belabor the point, but it became a big deal when the Dow hit 2000 at the beginning of 1987.

And like clockwork, it was 2000, 2100, 22, 23, 24, all the way up to 2700. 3000 became a big deal. 5,000 became a big deal. I still have The Wall Street Journal from the day the Dow hit 10,000. That was in the '90s. And I was like, this is unbelievable to see this kind of growth. 20,000 we went through and then we went back.

Tim Mullooly: We went through it twice this year.

Tom Mullooly: That's right.

Tim Mullooly: The market got down to 18,000 at the trough.

Tom Mullooly: Yeah. You raise a good point. Let's talk about this. So in January, the beginning of this year, the Dow Jones started the year at 28,846. We've now hit 30,000, which puts us at a 4% increase, not including dividends, for the Dow Jones Industrial Average. Your mileage may vary, but we also spent time this year at 188. I think if the market were to... If today were the last day of the year, this would be one of the only years in history where the market was down 30% and finished up for the year in the same calendar year. That's insane.

Tim Mullooly: I don't think round numbers are completely irrelevant. I think from a psychological standpoint too, just looking at, like you said, just chronicling over the years. Like I remember when we hit this. It's good for putting things into perspective and seeing how quickly things can move and how long it takes to move from one milestone to the next. It's good to track progress that way.

Tom Mullooly: A few things for folks to keep in mind is that as the index... We talk about the Dow. As the index gets bigger, the numbers, the percentage moves start to really change. So let's just say we finished the year at 30,000. The market goes up 20% next year. We're at 36,000.

Tim Mullooly: 6,000, I mean, that's four times what the entire index was when you started your career.

Tom Mullooly: Right.

Tim Mullooly: 1500.

Tom Mullooly: Right.

Tim Mullooly: I mean, we saw the market drop almost over 1500 points in one day this year. That's the entire amount of the index back in 1984, '85.

Tom Mullooly: Right. There's a lot that's packed into it. The other thing to remind folks is that the 30 stocks that make up the Dow do not represent what's in your account, unless your account is exactly invested with the same 30 names only and at the right percentage, the right allocation mix.

Tim Mullooly: And they change over time too.

Tom Mullooly: Well, thanks for bringing that. Good segue because the 30 stocks that were in the Dow Jones in 1986, not there today.

Tim Mullooly: They're all gone.

Tom Mullooly: I'm going to have to look after we turn off the mics. I think that was the last one. I have to see when Chevron was added to the index, because I think they were added in '87. In the '80s, I think there were something like four energy names in there. Now I think Chevron's the only one left. There were a lot of telecom names in there, Verizon, AT&T. Actually Verizon wasn't even in it because there was no Verizon in 1986. It was Bell Atlantic.

Tim Mullooly: I think round numbers and the Dow and indexes in general, they're important, but you need to put it into perspective in terms of what your investments are doing and if they even resemble the Dow Jones at all. So just keep that in mind when you're looking at these round numbers and the performance numbers from the index. It might not equal one-to-one what your portfolio is doing.

Tom Mullooly: Brendan raised a good point last week where he said, what really matters is not necessarily where the market is or how you've performed compared to the market. The main thing is, are you hitting your goals? And your goal maybe I don't want to have to worry about money in retirement. I just want to make sure that it's there. That should be your own personal Dow Jones Industrial Average.

Tim Mullooly: Yeah. That ties it back to making sure that your investment portfolio works within the context of your financial plan, like we were talking about before. That's just one piece of the pie. So one last thing, the Mets have a new owner.

Tom Mullooly: Yes, they do.

Tim Mullooly: What are your hopes for the franchise in terms of how the team is going to be run? And are there any parallels that you can take from how you want them to run the business to how people can run their own personal lives, financial lives?

Tom Mullooly: Oh boy. There's a lot to unpack there. So as usual, I'll give the Tom Mullooly too long of an answer. I've grown up as a Met fan. Mrs. Payson started the franchise in the '60s. When she passed away in '75, it was turned over to the CEO. The chairman at the time was a stockbroker. A guy named M. Donald Grant. Mrs. Payson's daughter, who really had no interest at all in baseball, became the new owner of the team. They didn't want to spend money. They didn't want to get involved in free agency, which was just beginning in the mid '70s.

Everybody in 1979, I mean, there were 42 people showing up at Shea Stadium for a game. Everybody was praying that the Mets would get new owners who would freely spend money. It's so funny that 40 years later, we are waiting for old ownership who refuses to spend money. We're waiting for them to leave and the new owner can come in and spend money.

Tim Mullooly: Old habits die hard.

Tom Mullooly: Yeah, they do. I'm optimistic that Mr. Cohen will do a good job. Make this franchise representative of the market that it's in. New York City market is huge. I gave up my season tickets in the mid '90s. Part of it was because we live in Monmouth County, so it's not easy to get to the ballpark. But I was also ticked off at the team because they wouldn't spend money and they ran it like a... They ran it poorly. A close friend of mine, when I told him this, he laughed at me. He said, "How many seats are in that ballpark?"

I said 55,000. He goes, "You don't think 55,000 people in the New York City area are going to want to go to a game?" He was like, "You think the Mets care that you gave up your tickets?" And I felt kind of foolish.

Tim Mullooly: It's a principal thing though. But I mean, for me, I think it's nice to hear that one of the first things Steve Cohen said when he bought the team was that he's immediately going to invest money into the franchise to build up the foundation of what was lacking, the analytics department from top to bottom, going down from low A ball all the way up to the MLB club. He was going to pay his employees that took pay cuts during the pandemic.

He was going to just put a lot of money into building up the bones of this franchise that had been whittled down, not just spending big money on free agents at the MLB level. And I think it's a good lesson for people to take away. You have to invest in yourself every once in a while and put some money back into your franchise and build up the foundation from the ground up before you can kind of just decorate the top layer with expensive looking things. If there's nothing under the hood, things are going to fall apart pretty quickly.

Tom Mullooly: Well said. That's why we spend so much time talking with clients about nuts and bolts. What does your balance sheet look like? What's your cashflow looking like? These are things that really drive important decisions when it comes investments and financial planning. Good way to end up Thanksgiving podcast episode 333. Thanks for tuning in and we will catch up with you in episode 334.