The Problem With Buying Back In at the Bottom - Transcript

Tom Mullooly: In episode 186 we're going to recap the first quarter, so stick around.

Welcome to the Mullooly Asset show. I'm your host, Tom Mullooly, and this is episode number 186, thank you for tuning in. The market lost exactly 20% in the first quarter of 2020. So what's it going to do for an encore? Well, the first thing I'll tell you is I've formed a bad habit over the last couple of weeks.
Tom Mullooly: I've been watching the futures at night and the futures start trading at 6:00 PM East coast time. So the market closes at four and you kind of get a preview through the night. You want to wreck your night, watch the futures. Please don't do that. I mean that in all sincerity because you're going to make yourself crazy because the futures trade all night and so they take into effect what happens in Japan, in China, in Europe, and then they finally set up for what's happening here in the United States. Don't get hung up with what's happening overnight with the futures.

Okay. I want to talk about what happens in bull markets. A surprising share of the gains in a new bull market happen very, very early, so you can't miss it. There's a lot of people who say, "I'm going to just go to cash and I'm going to buy this back at the bottom." It's very, very hard to do. Spencer Jakab wrote an article in the Wall Street journal a couple of days ago, we'll link to it in the show notes and he showed that if you put, just with dumb luck, put a hundred grand into the S&P 500 on March 9th, 2009 I mean right at the very bottom. That amount grew from there until the beginning of this year, from a hundred grand to $630,000. However, if you waited just three months, if you put it in on June 9th, 2009 and waited until this year, that hundred grand became 450 grand.

Nothing to sneeze at. I mean, it's really nice, but you left a lot of money on the table. So waiting for the smoke to clear or waiting for the all clear signal, it's not a plan. Then folks who say, "I'm just going to wait for the bottom and get in." These are the folks that usually can't pull the trigger. We had folks coming into our office in 2011, 2012, even 2013 who told us they got out in 2008 because they were scared. They had never gotten back in. They were wondering if it's just too darn late for them.

It's so much harder to get back in once you have gotten out of the market. This is something else to really remember that markets bottom way before the whole world is going to start to recover. The news is going to continue to be very bad for a long time after the stock market starts to recover.

Let me give you an example. The markets began recovering, as I just mentioned a moment ago, in March of 2009. Markets started going up pretty strongly throughout the summer and into the end of 2009. The unemployment rate hit 10% in October of 2009, six months after the market had bottomed. That was a big part of the reason why no one believed that the markets had really recovered and were starting to move up because like the news is still bad. It can't be happening. We're going to go down again.

So you have to remember that the news will continue to be bad even as markets start to lift and they're going to lift. The question is we don't know when. So what we do is we expect that we're going to do our periodic rebalancing in some of our accounts.

Bonds have done really, really well, especially over the last couple of weeks. We're going to be looking to shave some of those positions off and we're going to be adding to some of our core stock positions, some of that money going into the market at some bargain prices. That's what we're supposed to be doing and that is our plan. We have rules, how we manage our investment dollars for our clients. We've got a fiduciary obligation to do that. We're going to stick with our plan.

Thanks for tuning in. I will say before I go, if you've got questions, give us a call, email us, call us. We're here in the office. We'd love to catch up with you. Hope you're well. Stay safe. Wash your hands.