What Happened to the Market in December 2018? - Transcript

Tom Mullooly: If there's one video to watch, I think this is going to be it. In episode 122, we're going to talk a little bit about what happened to the market in December 2018. Stick around.

Welcome to the Mullooly Asset Show. I'm your host, Tom Mullooly and this is episode number 122. Thanks for tuning in and happy new year. We're recording this on January 2nd, 2019. I want to take some time and talk about what happened during the month of December because it was nothing but a train wreck for everybody.

What happened in December is not normal. I know that, you know, we manage money for people and they're busy going about their daily lives, they're not watching the market like we do all day long. We had many days through November and into December where the market would start out flat or actually go up 100 or 150 points, and then you go out and get a sandwich, you come back, we're down 275, we're down 325 by the end of the day. This happened relentlessly.

This happened most days in the month of December.

What does that tell ... What does it tell me? As someone who's been in the market now for over 30 years, this looks like forced selling. Tell you a little bit about the hedge fund business, the little that I know. There's only four times a year where you can get out of a hedge fund. It's at the end of a quarter. For example, if you wanted to get out of a hedge fund, your hedge fund investment by the end of December, you had to inform in writing, you had to inform your hedge fund manager by the end of November that you wanted to get out by the end of December.

So, they had the entire month of December to liquidate their positions and they got to sell them all, they have to. Ken Fisher, money manager writes a column for Forbes, someone I think besides us who you should follow on twitter, he's got a lot to say. He estimated that 200, 200 hedge funds were going to close by December 31st. That's a lot of selling that has to go on, with no buyers in sight. You can't find too many periods like we had in December where the returns aren't terrific 12 months out. Again, something else that Fisher reminded me of.

Look, when we have these violent moves down, it's important not to lose sight of what you're doing. We are hearing from clients in their 40s who are really upset because they saw the accounts go down in the month of November and into December, they were a little nervous, we get it. There is a plan behind this and the plan is, don't panic because this looks like forced liquidation. Does it look like a recession? No. Does it look like there's something else going on? No. Was it a Powell and the Fed? Probably not.

In fact, the estimated expected earnings growth for 2019 for the S&P 500 is going to be up over 8%. That usually leads to a pretty good year and that's not a recession. A recession is where earnings shrink. So, is it a global recession? Is it what's going on with all these other markets around the world? No, it's not a global recession. We're actually seeing earnings increases.

Is it a global growth, slow down? Yeah, probably.

It looks to me like the market that we had in 2011. 2011, Greece fell apart, we had the euro in big trouble, the debt of the US government got downgraded. I mean, that's a pretty serious event. The market sold off 20% pretty quick and when it turned out that there wasn't a recession, the market came back almost as fast. So, you have to hang on when we go through these downdrafts and there's no recession in sight. Also, looks like we had in 2015 where we saw oil go from $100 down to $30. People got really worried that there was going to be a recession. There wasn't one and the market came back pretty nicely after that. Market's come back very quick when they find out that there isn't going to be a recession.

Now, the good news is if you've got a 401(k) or if you've got a retirement plan at work, here's the best part of all, is that every two weeks when you get paid, a portion of your money is going in and buying more shares of these funds at some severely discounted prices. We had a situation in January going into February of 2016, hard to believe that was nearly three years ago, but the market went down 12%. First couple of weeks, nothing flat. I mean, it just went straight down. There were very few up days at all.

A very large fund, one of the fidelity funds that we have in retirement plans for clients at their workplace, I don’t know if I want to name it, but it was down a 26% by the fifth week of the year, the week of February 4th. By February 11th, it was down 30%. But, all of these clients who were investing in this, they were dollar cost averaging in it, every two weeks they were buying more and more shares and by the end of the year, this fund went from minus 30% to up 2% or 3% by the end of the year.

The fund returned over 30%. They made more because they were buying shares at lower and lower prices. Don't flip out, you'd be making a huge mistake. That's enough for episode 122. Thanks for watching.