The Coronavirus and the Stock Market - Transcript

Tom Mullooly: Hey in episode 177, we're going to talk about this Coronavirus, so stick around.

Welcome to the Mullooly Asset Show. I'm your host Tom Mullooly, and this is episode number 177. We are going to cite some facts and figures in this video, some information that I retrieved from Fidelity, from Wharton University of Penn and Dorsey Wright, our friends at Nasdaq.

Market's down a lot last week, and again today we're recording this on January 27th, 2020. There's lots of headlines surrounding the Coronavirus, which is now started in China and now it's starting to be discovered in other countries around the globe. But there's plenty more headlines that are getting pushed aside. Things like the impeachment, we're in full swing for earning season. There's going to be a lot of companies reporting earnings this week. So the reason why I'm putting this video together is I want to talk about what impact other academics or pandemics have had in the past on markets. Maybe we can get some kind of gauge, right?

So in 1918, Spanish flu, if you've ever heard of this, it was a wipe out story. Somewhere between 20 and 40% of the population in the world caught the flu and 20 million people died from this epidemic. That includes 500,000 people right here in the United States, died from this flu in 1918. In the three months where the flu was really raging, the last fourth quarter of 1918, this is 100 years ago, from peak to trough, the market went down just about 11%. Now the numbers might've been muted. We don't really know because it was also the end of World War I at the same time, so we can't really put our finger on it.

1957, the Asian flu. I included this just because it was so amazing how things happened. It was identified in February of 1957, they started working on a vaccine in May of 1957. Think about that. This flu spread for three months and they didn't even start work on a vaccine, but the vaccine was available three months later in August of 1957. In 1957, during this period, the S&P 500 went up 24%. That's not the reason why the market went down or up that year.

In 1968, Hong Kong flu. The deaths from this virus really peaked in late December of 1968. That year, S&P 500, up over 12%. So then we've got SARS in 2003, we've got the Asian flu in 2006, we've got the swine flu in 2009. Ebola, remember that, in 2014. Zika virus in 2016. Six months later from the time these flu outbreaks began, the S&P was higher in each of these instances.

I want to just flip back to the Ebola virus. In October of 2014, the market dropped 8% in just what seemed like a matter of days and everybody equated this drop to this Ebola virus, but the fact of the matter was there was other headlines going on. It was the end of quantitative easing here in the United States. That's a goofy thing about humans. People, humans need a reason, they need a narrative, why something happened. We talked about this in our last episode for the Mullooly Asset Management Podcast just the other day, episode number 292. The only reason why markets go down, the only reason is because there's more sellers than buyers.

Every seller has a reason why they're selling and likewise every buyer has a reason why they're selling. So if there's 100 million shares being sold, there's 10 million reasons why things are happening. It's not just because, you've probably seen this all the time on the news or in the paper. Stocks went up because of this or stocks went down because of that. That's not true. It's just more sellers than buyers. And one of the things that we do here is we use a tool from Dorsey Wright called Weekly Momentums.

Typically, Weekly Momentums in markets tend to go in one direction, positive or negative for six weeks, seven weeks, eight weeks. Once in a while you'll find nine weeks or ten weeks at a time in one direction. So you'll get positive weekly momentum for the S&P 500 for seven or eight weeks. And then it tends to slide back the other way. It's amazing how this happens. The last reading that we had, we had positive weekly momentum for the S&P 500, 13 weeks. Market's overdue for a pullback. This is very normal and it happens all the time.

So don't panic when there's a panic going on and don't make a short term mistake with your long-term investments. Thanks for tuning in to episode number 177 and we will see you on the next one.