Broadleaf Partners, LLC

Correction Territory

February 28, 2020

I left the office yesterday at 3pm and the market was down one percent. That didn't feel too bad considering the rapid declines of the past week. But within sixty minutes, the wheels had fallen off the proverbial truck, with the market sliding 4.4% on the day.

It was Tuesday morning, I believe, that a strategist's comments passed my desk, mentioning that the market had declined more in four days than it had in any four-day period in decades. While I don't recall the exact comment or the details, truths are always more compelling when they can be accompanied by some historical, Guinness-worthy precedent.

That, quite simply, makes for better headlines.

Before anyone panics, let's step back a moment, take a breather, and consider where we've been, what we know, and what can possibly be done about it.

Where We've Been

One week ago, the markets hit all-time highs and, after being up 32% in 2019, were up just shy of 5%. While it is true that the markets have declined nearly twelve percent in one week's time, it is also equally true that the market had not only hit an all-time high seven days ago, but that it had done so fifteen times in just thirty-two trading days this year!

So yes, it is true that the markets have experienced a precedent setting, swift correction in the last seven days, but it is equally true that they had enjoyed nearly a month of seemingly unending, wedded bliss. In our optimistic 2020 Investment Playbook published one month ago, we mentioned that a correction could be likely this year for no other reason than things had been so persistently strong. So now we are there.

Successful long term investors know that investing isn't all honeymoons, but a marriage to be lived through good times and bad. It is during periods like these that investors "earn" their returns, not at all-time highs, when the gettin' appears so easily earned and glamorously cheap.

9 Aurora Street, Suite 5
Hudson, Ohio 44236

Phone: 330-650-0921
www.broadleafpartners.com

What We Know

So, we know the markets have officially corrected, which classically means a ten percent or more drawdown. We also know drawdowns are a normal part of market events. In many years, markets have had peak to trough drawdowns of fifteen percent and, in most election years since the forties, the markets have experienced drawdowns of a magnitude similar to the current one. Who remembers that a little over one year ago, the markets experienced a fourth quarter decline of 15%?

Of course, while the numbers are the numbers in any decline, there are always a variety of reasons that explain such declines. Typically, fears of recession are the most common, but they can also be explained by concerns over inverted yield curves and an assortment of asset bubbles, as in recent periods. Each of these concerns is indeed real and valid at the time, otherwise, such corrections would not exist. Fear is real, after all. But not all corrections are lasting, nor are all utterly severe, as was the case in the housing crisis, from which we have since risen.

The current correction is most likely explained by real fears over the Coronavirus and its potential impact on not only the economy, but global human life. While there have been similar health scares from SARS and Ebola in the past, we just don't and can't know what we don't see that often. Add to that the more typical volatility associated with elevated election year fears, and you've got this particular correction.

By our research, after reading a stream of earnings calls and talking to businessmen with contacts in China, supply chain concerns appear paramount. Demand in the U.S., at least at this point in time, appears to remain strong. The bond market suggests a similar story. While I won't get into the mathematical details, long term government bond yields paint a picture less about a slowdown in domestic growth or inflation expectations, but in factors "other than".

Do we, at this time, expect a slowdown of such magnitude that a domestic recession is likely? No, we do not. Our best assessment is based on what we know today and for now, we're going to stick with it.

What Can Possibly Be Done?

It is very tempting to press the sell button in times like these. For some, the allure is both powerful and real. But it is equally as important, based on history, not to let one's emotions get the best of you. If you are losing sleep, it may be best to sell only a little if it will buy you some psychological relief knowing that you've done something. For me, I have personally invested more, thinking that five years from now, or potentially even sooner, it will prove to have been the right call.

Anyone investing in the markets should only do so knowing the funds won't be needed for the longer haul, which we generally define as a period of five years. Our projections for returns in recent weeks had admittedly narrowed as the market hit new successive highs, but they still remained positive, particularly in relation to cash and long term government bond yield returns. Today, with the declines, the return potentials have increased, providing better long term return opportunities.

9 Aurora Street, Suite 5
Hudson, Ohio 44236
Phone: 330-650-0921
www.broadleafpartners.com

This analysis isn't meant to imply we, or you, should do nothing. We have an investment discipline that leads us to sell some stocks and, at times, buy others. The world does and is ever changing, but the opportunities to invest in game changing innovators abounds. Over the long haul, the markets tend to reward those who embrace the unknown and buy when everyone else is selling.

What you do in the here and now should be made with an assessment of your personal needs and the input of a trusted financial advisor who knows your temperament, perhaps even better than you do. Equities may not be for everyone in any given moment, but over time, my experience has shown them to be an asset class worth marrying, in good times and bad.

If you must sell, our recommendation is you do so sparingly for your real needs, but embrace the idea that without risk, nothing can be gained. Now is the time to decide where you stand with what you can afford. Develop a plan with the long term in mind and stick to it, pruning and weeding along the way as your discipline dictates. Invest like Mr. Spock would, while simultaneously allowing yourself to feel as Captain Kirk most assuredly does.

Earnings season is largely winding down and if you'd like to chat, give us a call.

Kindest Regards,

Doug
Doug MacKay
CEO & CIO
dmackay@broadleafpartners.com

Bill
Bill Hoover
President
bhoover@broadleafpartners.com

9 Aurora Street, Suite 5
Hudson, Ohio 44236

Phone: 330-650-0921
www.broadleafpartners.com