

13 March 2020

MARKET FLASH UPDATE

Dear Investors,

What happened in the last two weeks? Month to date, global equities dropped 17.3% while crude oil tanked 30.8%. For those following the markets, it felt like a YouTube movie playing at 5x as volatility spiked with the large and sudden market moves. Such volatility is infrequent but not rare, having occurred 11 times in the past 30 years. And almost each time, markets bottomed when volatility (fear) was the highest.

Why did markets drop? Sometimes we jest that it's more sellers than buyers. Indeed, this has been true recently. Good and bad investments got thrown out the window, with cheap getting cheaper. There has been panic selling, which occurs when there is uncertainty. More importantly, this time there is forced selling. Some investors have been forced to liquidate their investments, which resulted in a vicious cycle of lower prices causing further margin calls.

As an investor, ask yourself if you have been in any of these situations: chasing tops, taking undue risk, being over-levered. If so, it might have been a great experience in the last 10 years with low volatility and no major bear market. However, you are also likely experiencing margin calls recently, and being forced to dispose of your investments in a fire sale. But if you are not, just like us, there is no need to panic.

With this round of declines, weak hands got flushed out, and more weak hands will continue to be flushed out. Some investors are hoping for a rebound so that they will not be force-sold. For us, we do not need to hope. The portfolios are structurally set up to be prepared for market drops regardless of virus or oil or other causes. In fact, we are more excited now as investments we have been eyeing are getting more attractive.

When the dust clears, the ones that will remain are those with strong hands (and strong hearts).