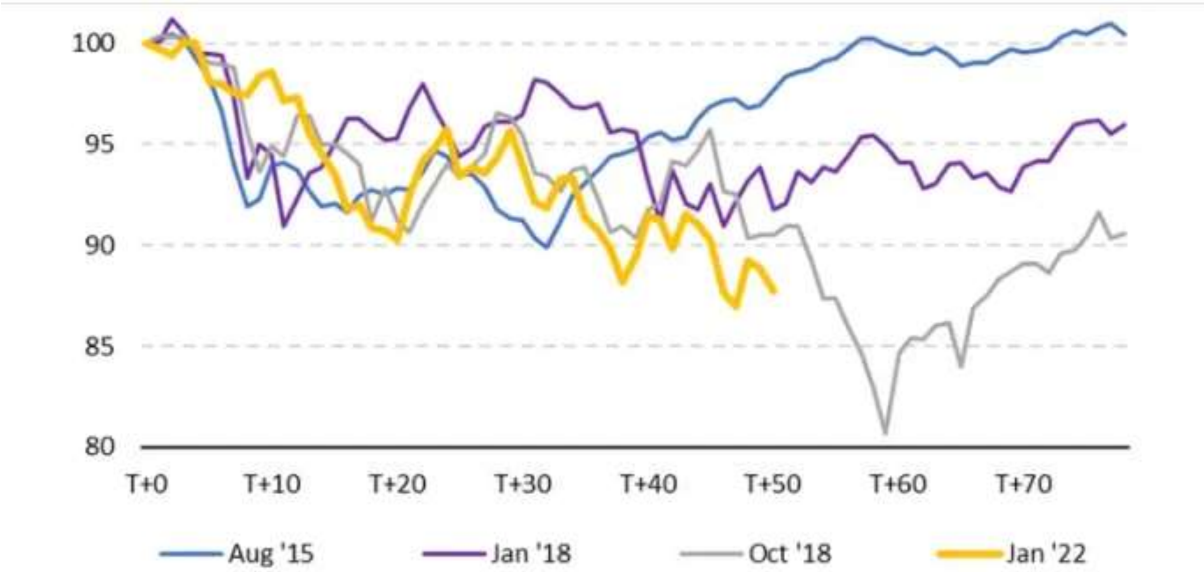
18 March 2022

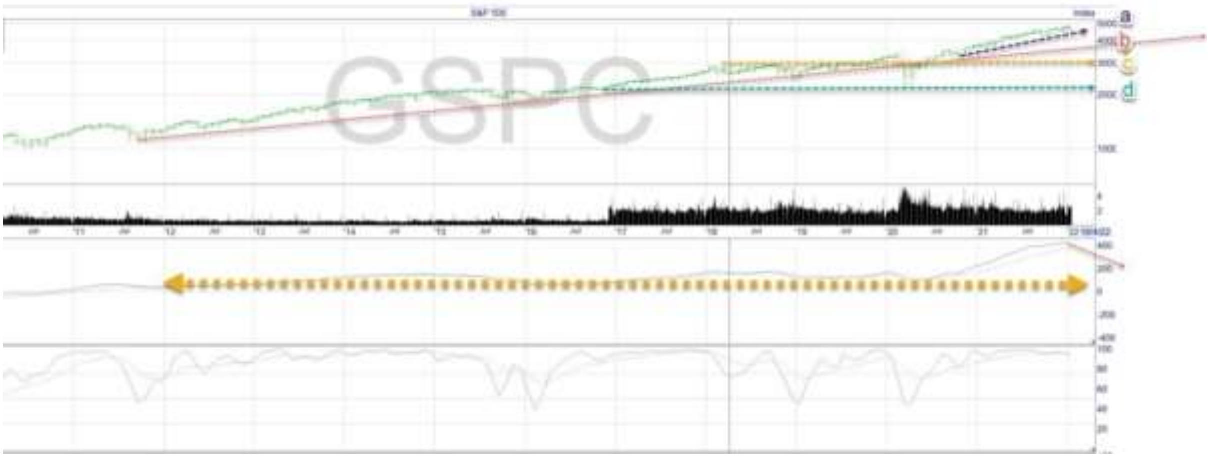
Overview

The falls continue. Generally. It's a stock pickers market when that happens. Key issues I will therefore cover here:

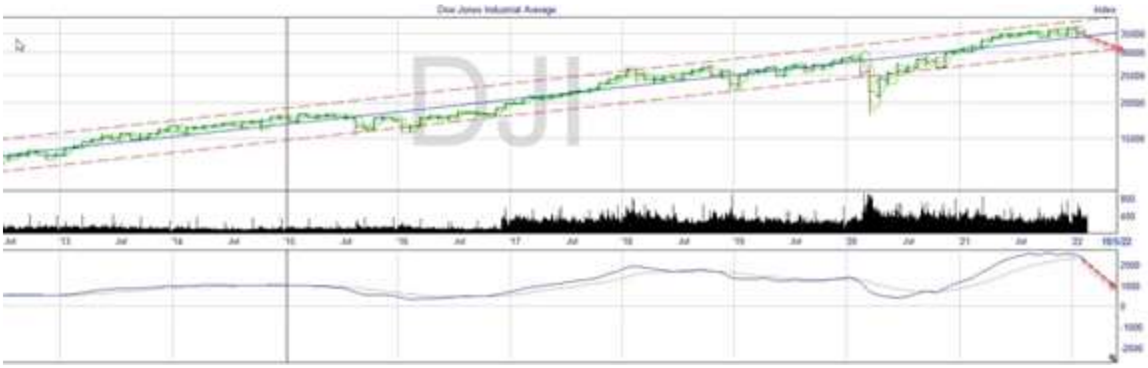
1. What do you do if quality companies fall?
2. Where are the opportunities?
3. Will the rising stocks continue and be worth getting into now?



S&P performance in previous drawdowns. Bloomberg, Vanda Research

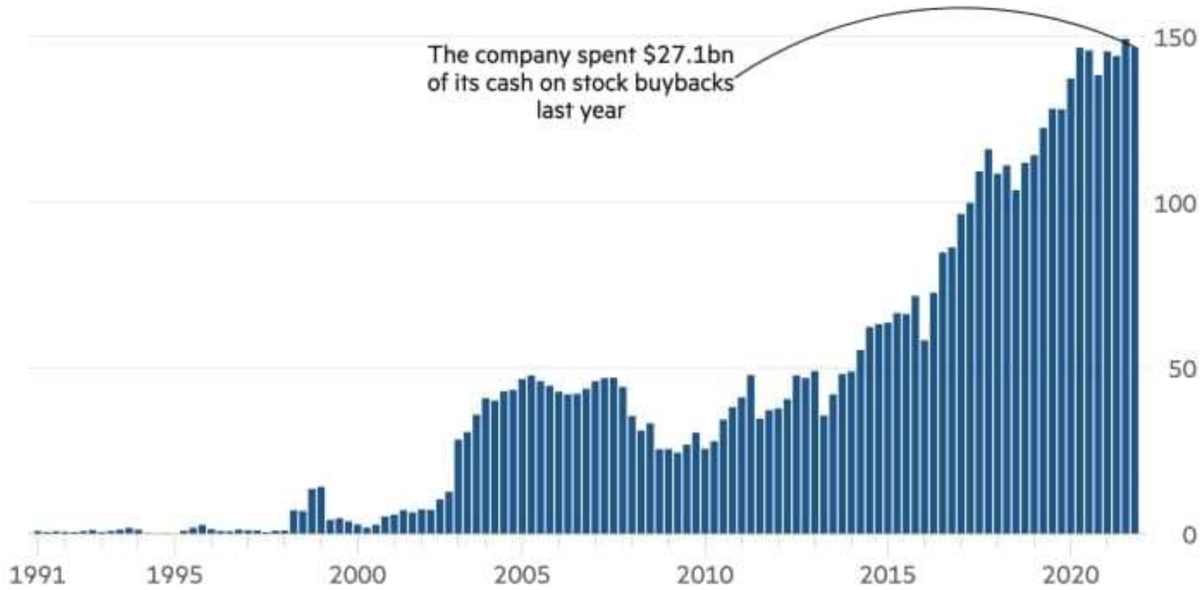


As I said about a month ago on here - 'b' is most likely



Berkshire Hathaway's cash pile remains near a record

Cash, cash equivalents and short-term Treasuries held ($bn)



Sources: Company filings, Bloomberg, FT research
© FT

				% of members with:			
Index	YTD return	Index maximum drawdown from YTD high	Average member drawdown from YTD high	Positive YTD return	At least -10% drawdown from YTD high	At least -20% drawdown from 52w high	At least -50% drawdown from 52w high
S&P 500	-7%	-10%	-13%	34%	65%	51%	2%
NASDAQ	-12%	-16%	-21%	30%	74%	76%	46%
Russell 2000	-10%	-15%	-21%	22%	84%	83%	34%

Source: Charles Schwab, Bloomberg, as of 2/11/2022. Indexes are unmanaged, do not incur management fees, costs and expenses and cannot be invested in directly. Past performance is no guarantee of future results. Some members excluded from year-to-date return columns given additions to indices were after January 2022.

Above: Year To Date Aprox

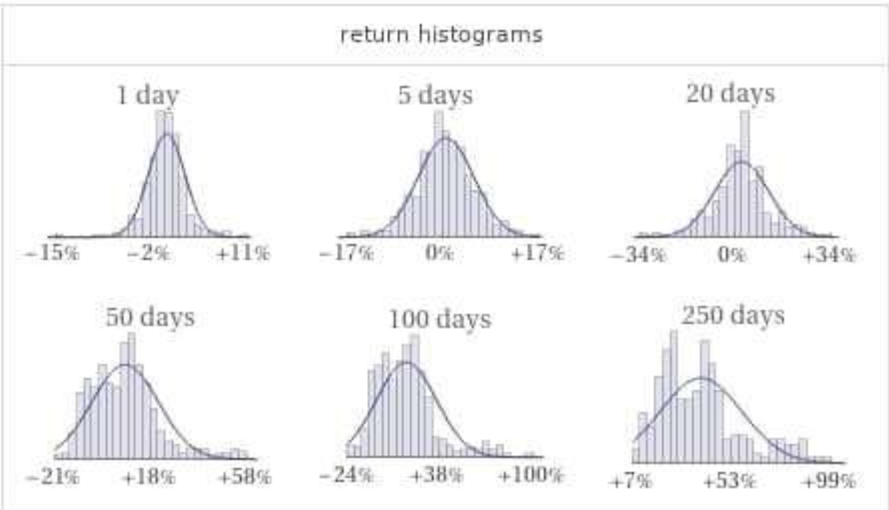
Price-Earnings Aprox

PEG (price earnings growth) another measure of value. Want it ideally <1

Given there are clearly some opportunities – what are they and where?

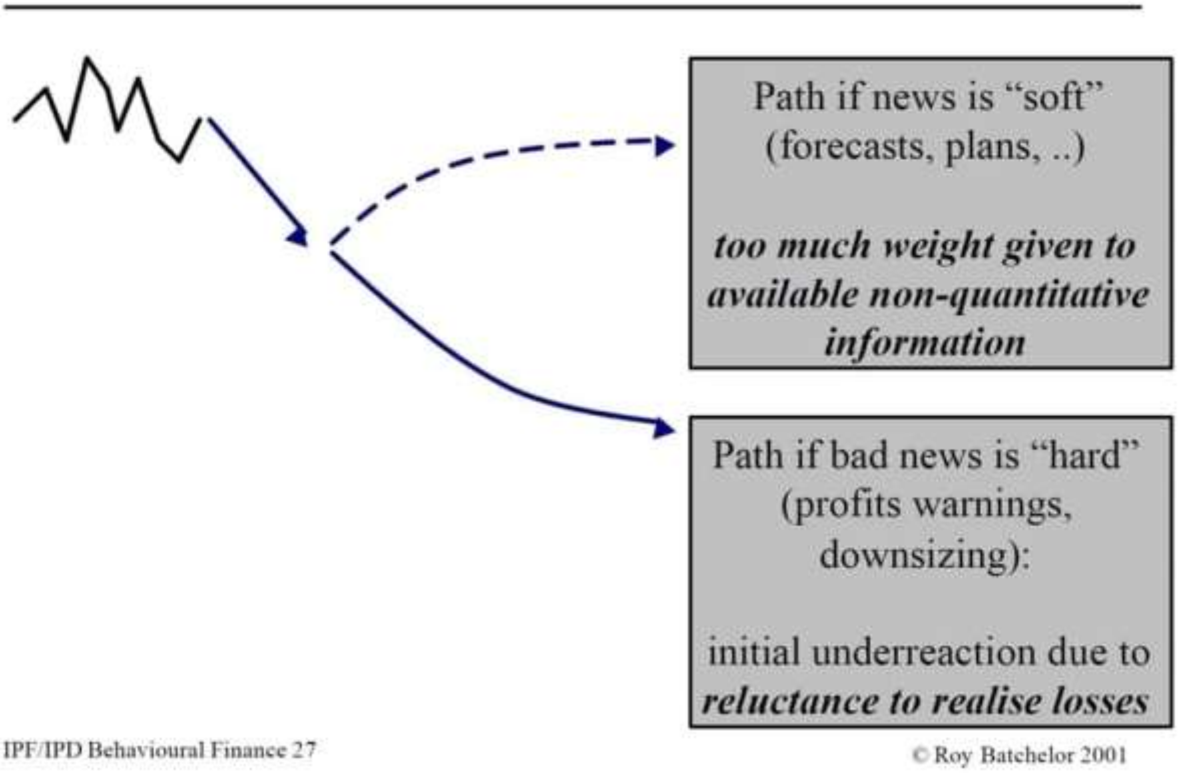
Core Holdings – What When They Fall?

I continue holding on to my core stocks like Apple, Amazon, Alphabet. And also Costco.



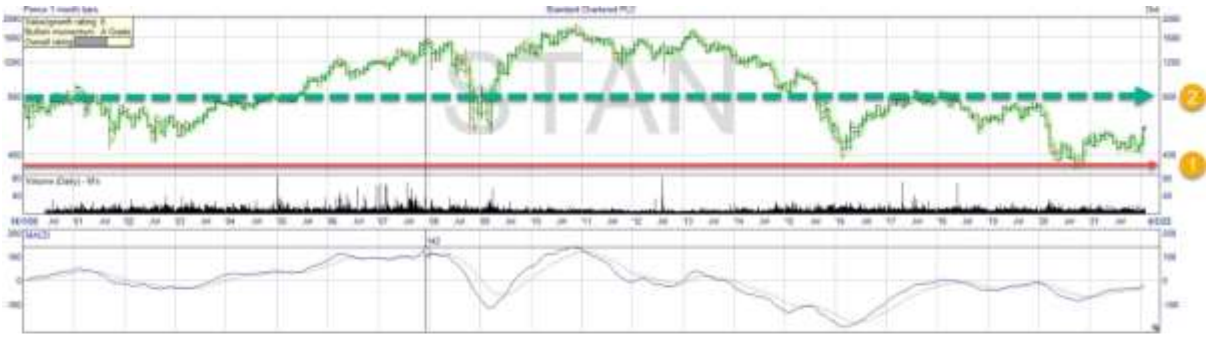
You can show people that a stock like Meta (see image) can drop significantly in a day or a week or 20 day. But until they experience it, they don't understand that that volatility, taken over a year is the correct perspective. ie if it's still down so much after 100 days, then there may be a good upside.

PayPal recently reported fourth-quarter earnings results that came in $0.01 below consensus estimates at $1.11 per share. Revenue that grew 13% year over year to $6.92 billion exceeded expectations - it dropped 25%! You can see why when the fears of the moment recede say over 100 days that the rebounds resume and memories fade. They key is 1. is it quality? 2. Then hold and ignore short term noise.



Some Special Strategies

Outside fundamentals sometimes strategies arise which are based on price action.



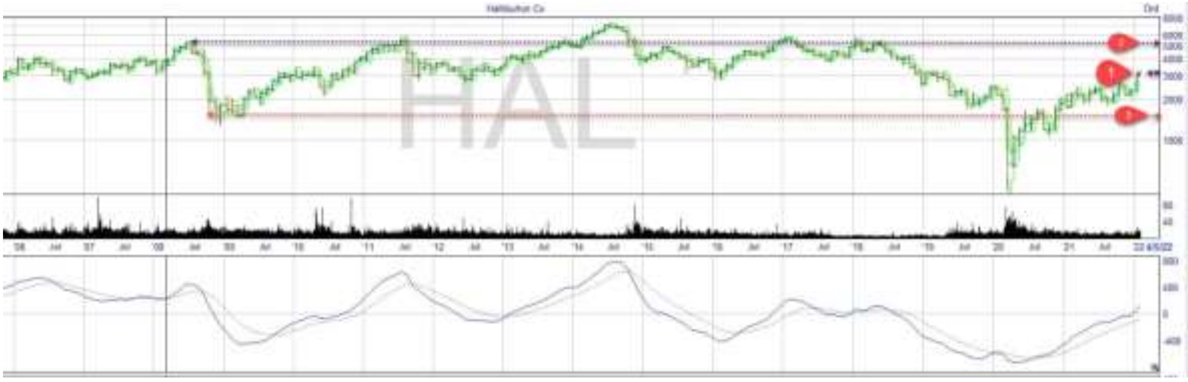
Special Situation: Standard Chartered Bank. Moves to point 2 within next 12 months. Risk is it could go to 1. Risk: Medium. Return: 45%

Special Situation: BP goes from current levels (1) to level (2) for a return of 25% within 12 months with a moderate risk it falls to point 3.

Special Situation: Hiscox goes to point 3 within 2 year with a moderate risk of falling to point 2. Risk moderate. Return around 100%.

Special Situation: British American Tobacco in 15 months moves from current 1 to 2 for a return of 70%. RIsk of falling to point marked 3. Risk of position moderate.

Special Situation: Schlumberger from current price to 2 with a 50% gain in 18 months with moderate risk of fall to 1.

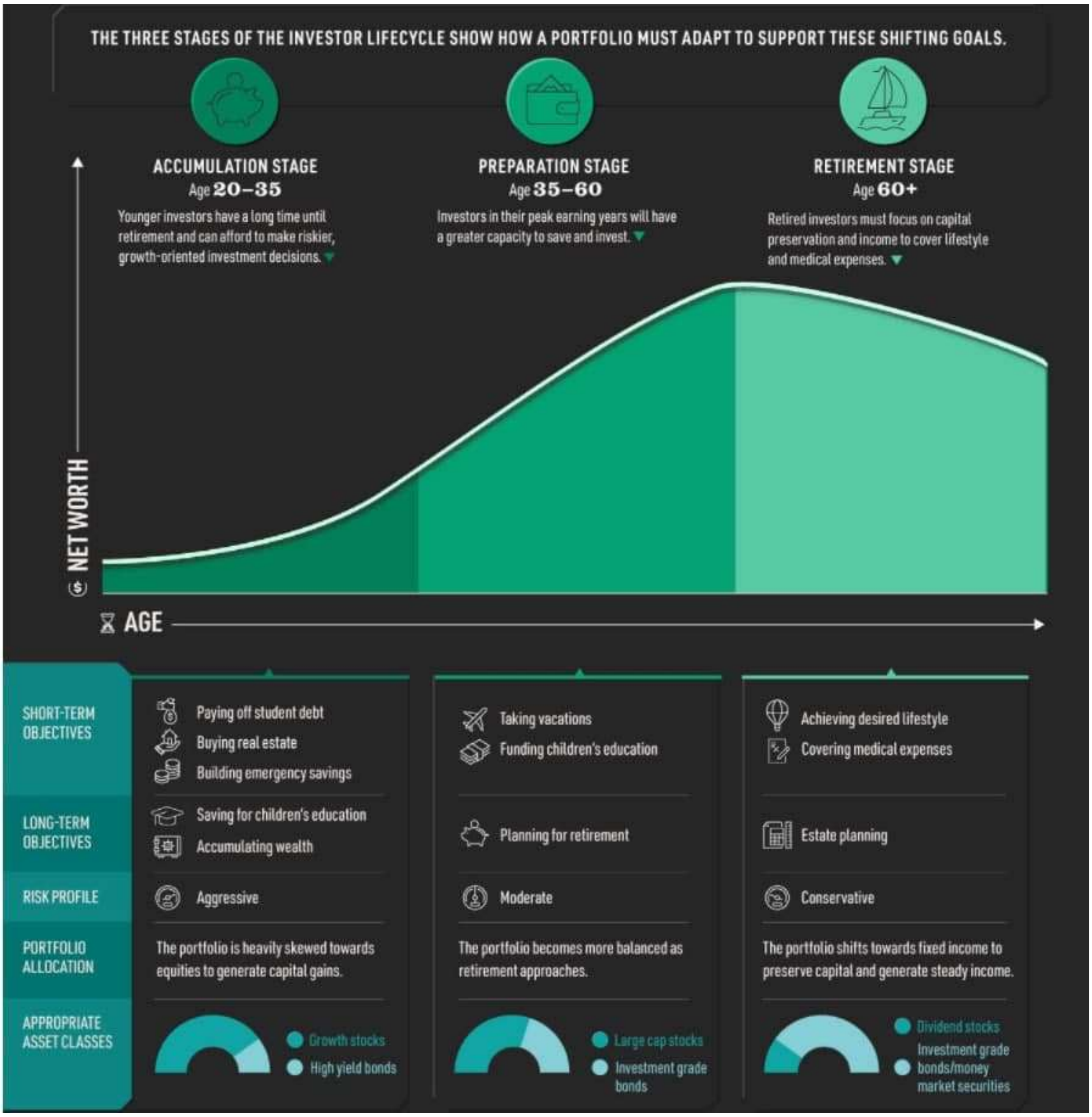


Special Situation: Halliburton. From 1 to 2 with a 70% gain in 15 months on moderate risk of a fall to point 3.

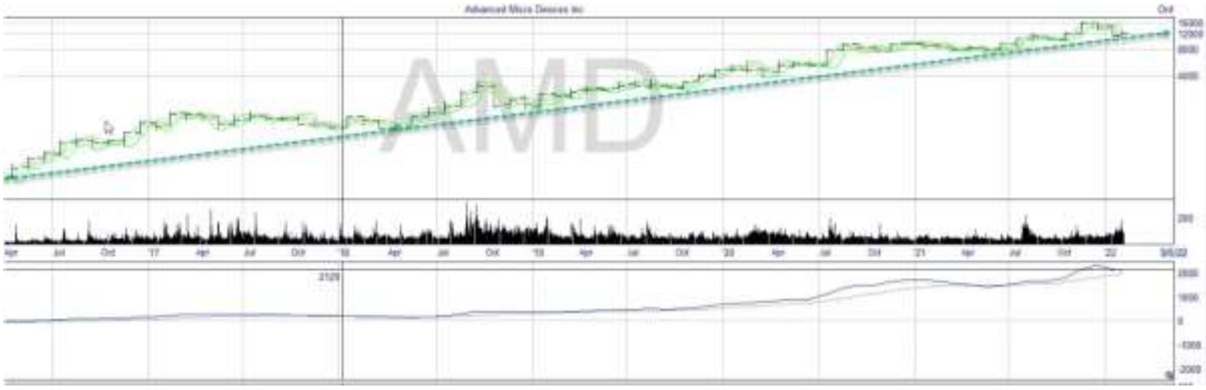
Moderate to high risk, of a 100% gain in 2 years but see the falls which are moderate to high risk.

Financial Needs

I liked this and wanted to share with you.


THE THREE STAGES OF THE INVESTOR LIFECYCLE SHOW HOW A PORTFOLIO MUST ADAPT TO SUPPORT THESE SHIFTING GOALS.
ACCUMULATION STAGE
Age 20–35
Younger investors have a long time until retirement and can afford to make riskier, growth-oriented investment decisions.
PREPARATION STAGE
Age 35–60
Investors in their peak earning years will have a greater capacity to save and invest.
RETIREMENT STAGE
Age 60+
Retired investors must focus on capital preservation and income to cover lifestyle and medical expenses.
NET WORTH
AGE
SHORT-TERM OBJECTIVES
Paying off student debt
Buying real estate
Building emergency savings
Taking vacations
Funding children's education
Achieving desired lifestyle
Covering medical expenses
LONG-TERM OBJECTIVES
Saving for children's education
Accumulating wealth
Planning for retirement
Estate planning
RISK PROFILE
Aggressive
Moderate
Conservative
PORTFOLIO ALLOCATION
The portfolio is heavily skewed towards equities to generate capital gains.
The portfolio becomes more balanced as retirement approaches.
The portfolio shifts towards fixed income to preserve capital and generate steady income.
APPROPRIATE ASSET CLASSES
Growth stocks
High yield bonds
Large cap stocks
Investment grade bonds
Dividend stocks
Investment grade bonds/money market securities

What's Going on with the Market?



This is an example of what might be happening. The market pull-back is bring stocks back to their longer term trendline. ie they had moved to far above that and moving back to it. Of course if prices fall below then we know that it's not that and growth is expected to be worse. This is for education - not for action.

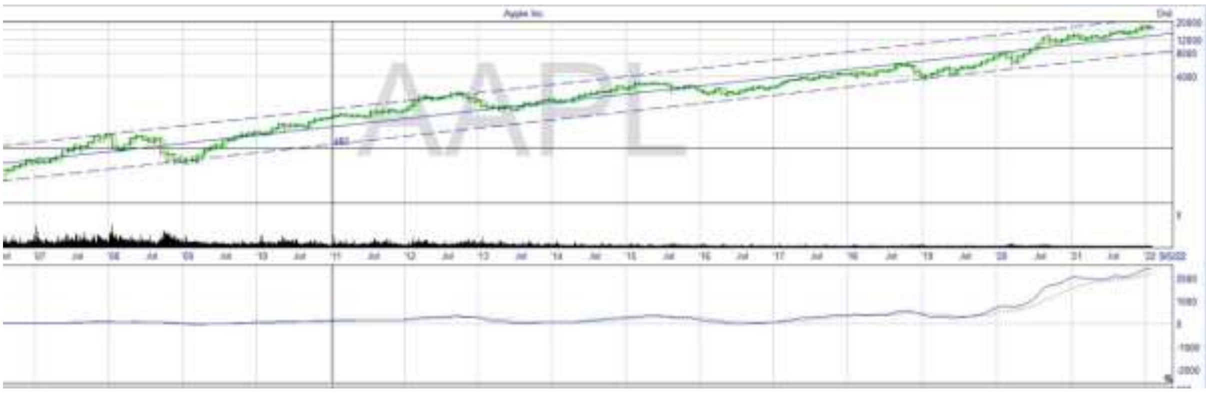
Stocks falling back to support. May dip below it. And then continue up at that slower growth pace. ie 1. Give up recent gains (done) 2. Continue up at slower growth angle of inclination.

Amazon with trend line (central) and 2 standard deviations around it. If the trend growth remains intact then it tends not to move below the lower 2 standard deviations away.

If like me you are a long time Alphabet holder, then you should be aware it is well above its long term growth trend (solid blue middle line) and is 2 standard deviations above it. So do I try to time it? No I am in, even if the next 12 months is sideways.

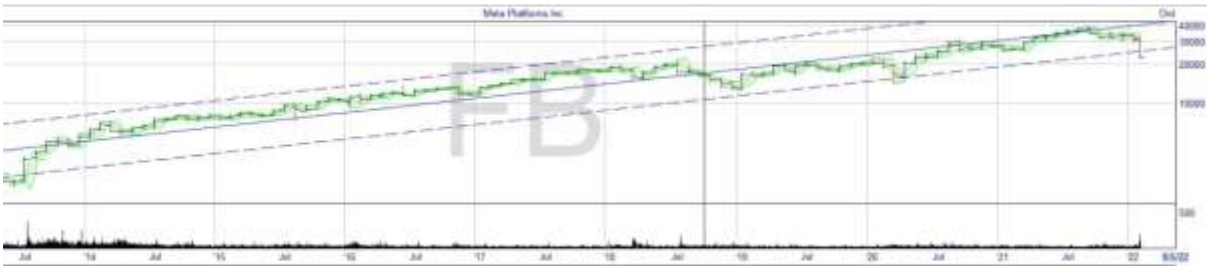
nVidia at trend growth price BUT can of course move 2 standard deviations lower.

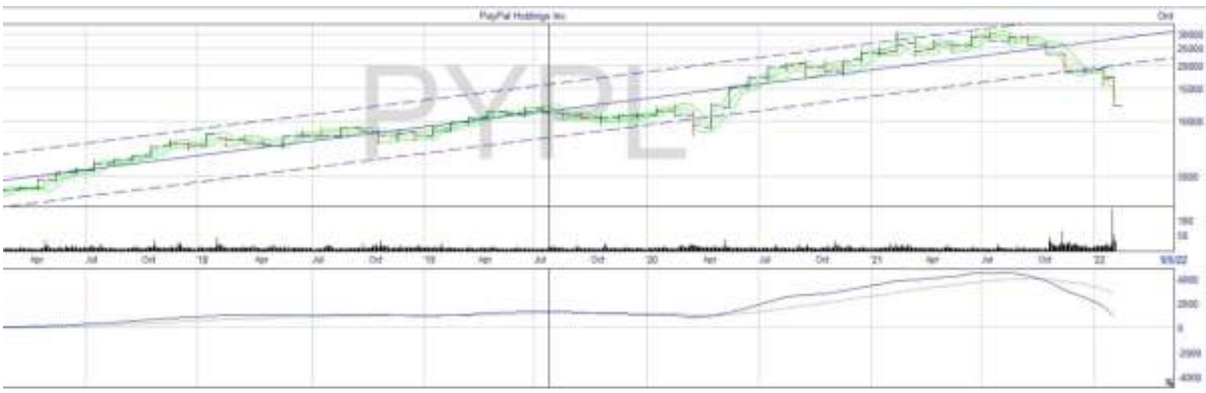
For information - Current trend (solid blue) and 2 standard deviation bands.

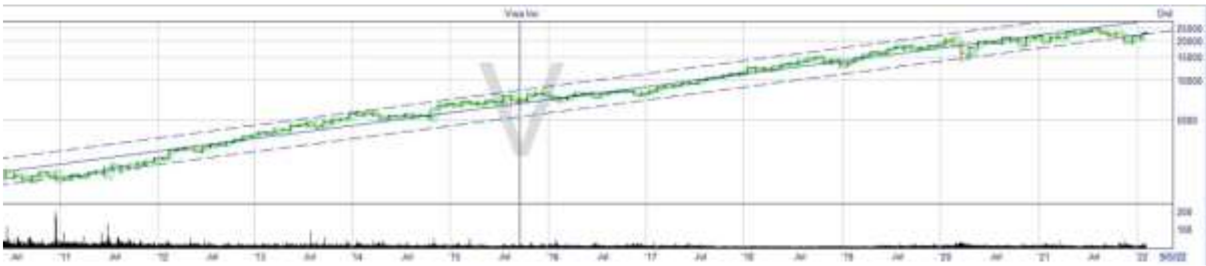

Apple Inc
AAPL


Microsoft Corp
MSFT


Adobe Inc
ADBE


Meta Platforms Inc
FB


PayPal Holdings Inc
PYPL



Disney Analysis. If it continues at lower rate of growth then '1' and green line is route. If resumes faster rate then '2' and yellow line. I would say 70% probability of '2'.

Market crashes are rare, ie happen maybe 5% of the time. But if they do, then all analysis fails. As it's a crash. There are no umbrellas in a hurricane. Bit like house prices in a recession, you just have to wait longer to get rich.

Special Situation: Technical and Fundamentals look good for 12-18 month hold and upside 33% then sell or if time runs out.

Special Situations: Deere and Lockheed. Both sound fundamentals/technicals. Exit at 30% gain or if 18 months are over.

If it goes to back where it peaked from current levels in 5 years that's a 200% return or 24%pa IRR. If it happens in 3 years that's 44%. Could it go to point 2 - sure, point 3, less likely of course, and 4 even less likely.

Current levels to peak gives me a 3x return. Price at level '4' to peak gives a 10x return pretty much. As a special strategy I may add to this position, For now I continue as I am. And I am surprised it's fallen this much. Am not often this surprised

Latest Smart Money Thinking on a Stock Market Crash

The S&P 500 has shed 500 points amid inflation fears. It's been a punishing start to 2022. But is it just a bump on the road? Or are we set for the stock market crash that some commentators have been predicting for years?

Stock market turbulence throughout January has caused a significant degree of alarm. Since the pandemic-related drop in March 2020, stocks have risen dramatically. In just 17 months, the S&P 500 doubled. Last year, the index returned 27%. However, according to some smart money investors, the good times are over for now.

Inflation

Paul Tudor Jones, the well-known billionaire investor, believes inflation is here to stay. He thinks it's the biggest threat to the market and society at the moment. Inflation hit 30-year highs last year, but Jones suggests that's just the start. The Tudor Investment founder believes that the trillions of dollars of stimulus money injected into the economy will keep inflation running hot.

The legendary investor states that now is the time to look at various inflation hedges, like Treasury inflation-protected securities and commodities. He warned against fixed-income products and suggested that equities will outperform them in an inflationary environment.

High Valuations

Some smart money is less optimistic about equities. Jeremy Grantham, the co-founder of GMO, suggests we are in the middle of a "superbubble." When Grantham talks about bubbles, people listen. He predicted the dot-com crash in 2000 and the housing crisis of 2008.

Grantham describes a "superbubble" as a scenario when prices rise more quickly than usual, followed by a narrowing of the market where blue-chips rise but speculative stock stagnates. This picture will seem familiar to everyday investors.

In Grantham's opinion, the U.S. market is overinflated. If his thesis bears out, the S&P 500 could drop to 2,500 points — which would be down almost half from its record highs from December 2021.

However, he believes there are plenty of opportunities out there. For example, value stocks in other markets — like the FTSE 100 — could be worth considering.

But Grantham isn't the only expert sounding the alarm. John Hussman, president of Hussman Investment Trust, believes we have entered the most extreme financial bubble in U.S. history. And he blames the Fed.

Hussman suggests that haphazard Federal Reserve monetary policy over the last 15 years is to blame. He explains that since the beginning of the financial crisis — especially since the pandemic — the central bank has attempted to keep interest rates low by pumping liquidity into the economy. However, with inflation nearing 40-years highs, they are moving quickly to tighten policy.

Hussman points to his favoured measure of market health: total market cap to total revenues, indicating extreme valuations. Further to that, he suggests that the S&P 500 will have to drop by 70% to reach normal valuations. The result of this policy is the high valuations we see today.

Ray Dalio at Bridgewater Associates is similarly bearish about U.S. equities. His top three holdings are emerging market ETFs, suggesting a pivot away from the American market.

Wall Street guru Warren Buffett doesn't seem too fazed by recent market problems. His advice is to concentrate on the long-term. However, he has been selling more than buying. Some people feel that could indicate that he sees a market crash brewing. Alternatively, he might be freeing up some capital for something else.

Other Headwinds

Of course, inflation and high valuations aren't the only things that could affect stock prices throughout 2022. In fact, there are plenty of events that could hit the market.

New COVID-19 variants are contributing to an uncertain landscape. Economies are showing resilience and recovering, but new strains could cause issues.

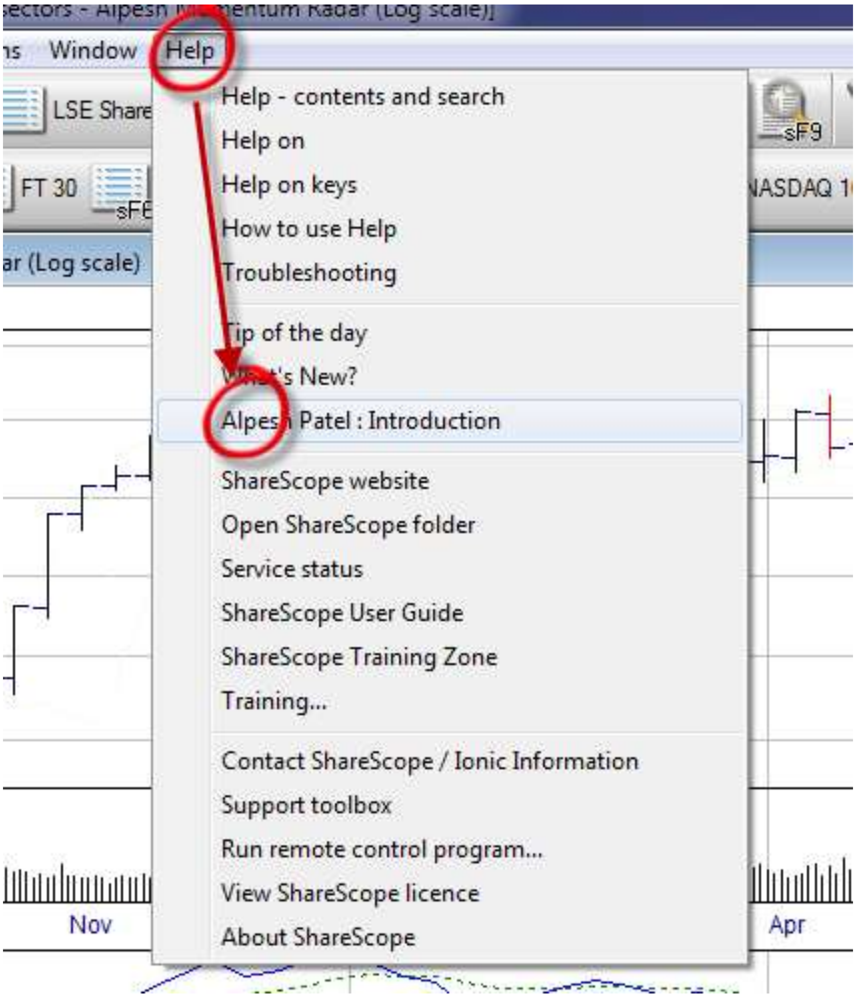
Politics could also throw a spanner in the works this year. For starters, the stopgap funding bill agreed in December only applies until February 13th. The ideological differences between the parties could make another government shutdown possible.

Additionally, with midterm elections due in November, majorities for either party could hurt the market. If the Democrats strengthen their hand, corporation taxes could increase. However, if Republicans win more seats, it could kill Biden's Build Back Better program.

Further afield, China's tech crackdown could hurt U.S. equities. Weakening of the Chinese market could hurt innovation and the supply chain, with negative downstream consequences for U.S. stocks.

Finally, this could all come down to history repeating itself. Since the 1960s, the road to recovery has featured a 10% market correction three years after the bottom in the last eight bear markets. We haven't hit that point in the 22 months since the pandemic crash, but it could be around the corner.

Help Page



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