Aldrich WEALTH LP

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The longest bull market in history, which began in 2009, came to a rather abrupt end. The S&P 500 Index bottomed at 666 on March 6, 2009. The Index rallied to an all-time high of 3,380 on February 14, 2020. The Index has since dropped to about 2,400 after a record-setting retreat. Although stocks pulled back almost 20 percent in the fourth quarter of 2018, the economy was functioning solidly and investors remained positive. Stocks rebounded in 2019 and the fourth quarter became a distant memory. Today, we likely feel stressed, anxious, scared, uncertain and a host of other uncomfortable feelings. This is truly the first time investors have been tested by the markets in over a decade.

We looked back to communication we sent on February 19, 2009 – roughly two weeks before the S&P 500 bottomed during the last recession. Although it has been over 11 years, we still think it is a good reminder of how desperate and nervous everyone felt. This was a very difficult period and companies were going bankrupt, banks essentially cut off lending, home prices plummeted, the unemployment rate surged to almost 10.0 percent and the Federal Reserve Bank cut the borrowing rate to 0.0 percent. When we sent this communication we didn't know the market would bottom soon and embark on its longest bull run in history. However, we were confident that the market would eventually find a bottom once maximum pessimism was established and stocks would begin moving higher.

Originally distributed on February 19, 2009 *- On December 31, 2008, the S&P 500 Index officially concluded its largest decline in more than 80 years. Unfortunately, stock prices have continued to fall so far in 2009. We are currently retesting the November 20, 2008, lows as the Government's latest rescue plan has been met with mixed reviews. Given that many of the current Government's actions are unprecedented, it is difficult to determine their short and long-term effects. There is a saying on Wall Street that "the market hates uncertainty". As an investor, it is not so much uncertainty but rather losing money that I hate.*

Investing should be a very unemotional and quantitative exercise. As investors, we should try to maximize our return over a given time horizon based on a specific level of risk. However, this process gets complicated when we include emotions. Studies indicate that people enjoy winning and hate losing. In other words, the positive feeling of a 20% gain is much less than the negative feeling of a 20% decline. Losses can cause investors to make decisions that they indicated they would not make prior to incurring the losses. History shows that money flows increase into the stock market near the peaks and decrease near the bottoms. Therefore, most investors have a tendency to buy high (feel good) and sell low (feel bad).

Historically, the most effective investment philosophy is to thoughtfully develop an investment plan and stick with it. By having a plan in place you significantly reduce the chance of reacting to your emotions during stressful periods.

As was the case in February 2009, we don't know if the bottom is near or not. Like 2009, investors feel unnerved and are wondering if this time may be different – stocks might not recover. But we know that in 2009, and every prior recession and bear market, investors who remained invested and didn't panic were rewarded compared to those who cashed out. We are confident that investors will once again be compensated for remaining calm and not letting fear and emotion drive investment decisions. As the chart that follows shows, the S&P 500 Index's decline during the last bout of heightened volatility was substantial, but so was the recovery that followed.

S&P 500 Index – Trailing 20 Years

We are closely monitoring the markets as well as developments out of Washington, D.C. The Federal Reserve, White House, and Congress have all taken extreme measures to reduce the economic and human damage inflicted by the virus and subsequent "social distancing" that is occurring. To some extent, the dramatic actions ultimately taken during the 2008-09 financial crisis have prepared us to act swiftly and aggressively. Our underlying economy was also in good condition entering this event. There is no doubt the coronavirus outbreak will depress growth and earnings for several months. However, as was the case 11 years ago, we are confident we will get through this and the economy will recover. We continue to look for opportunities to make adjustments we believe will better position portfolios for the current and future environment.

Please don't hesitate to contact us if you have any questions or just want to talk.

Aldrich Wealth Investment Committee