
Sound Investments Inc.

1st Quarter 2020

Summary

DJIA - 23,949 S&P 500 - 2843 Nasdaq - 8518

The chart on the back of this page shows a support / resistance line going back to Dec 24th 2018. Using this LINE it would appear the bottom was put in on Mar 23rd. I may be wrong but by early April we were getting back in to the market and have seen a partial rebound. There may be darker days ahead but we think the bottom of 23/2400 on the S&P 500 may be the low.

The Dow Jones Industrial Average just completed its best two-week performance stretch since the 1930s, even as unemployment and other economic readings become markedly worse. Markets have already priced in a huge drop in corporate earnings and the case can be made that stocks are now relatively cheap compared to historical normal valuations.

This investment letter is mailed quarterly to our clients and friends?

March Madness

Each year, at this time, I enjoy watching college basketball. As a newspaper article reported, there is more than enough March Madness from watching the financial reports but still no basketball. Stocks fell rapidly and indiscriminately. Comparing every decline greater than 30% since 1915, the current sell-off was the fastest ever (see chart on back).

Major indexes ended the first quarter with double digit losses. The S&P was down -19.5% and the Dow -22.5% through Mar 31st, in one of the worst quarters in stock market history. Small caps were down over -30% and European shares were off -23%.

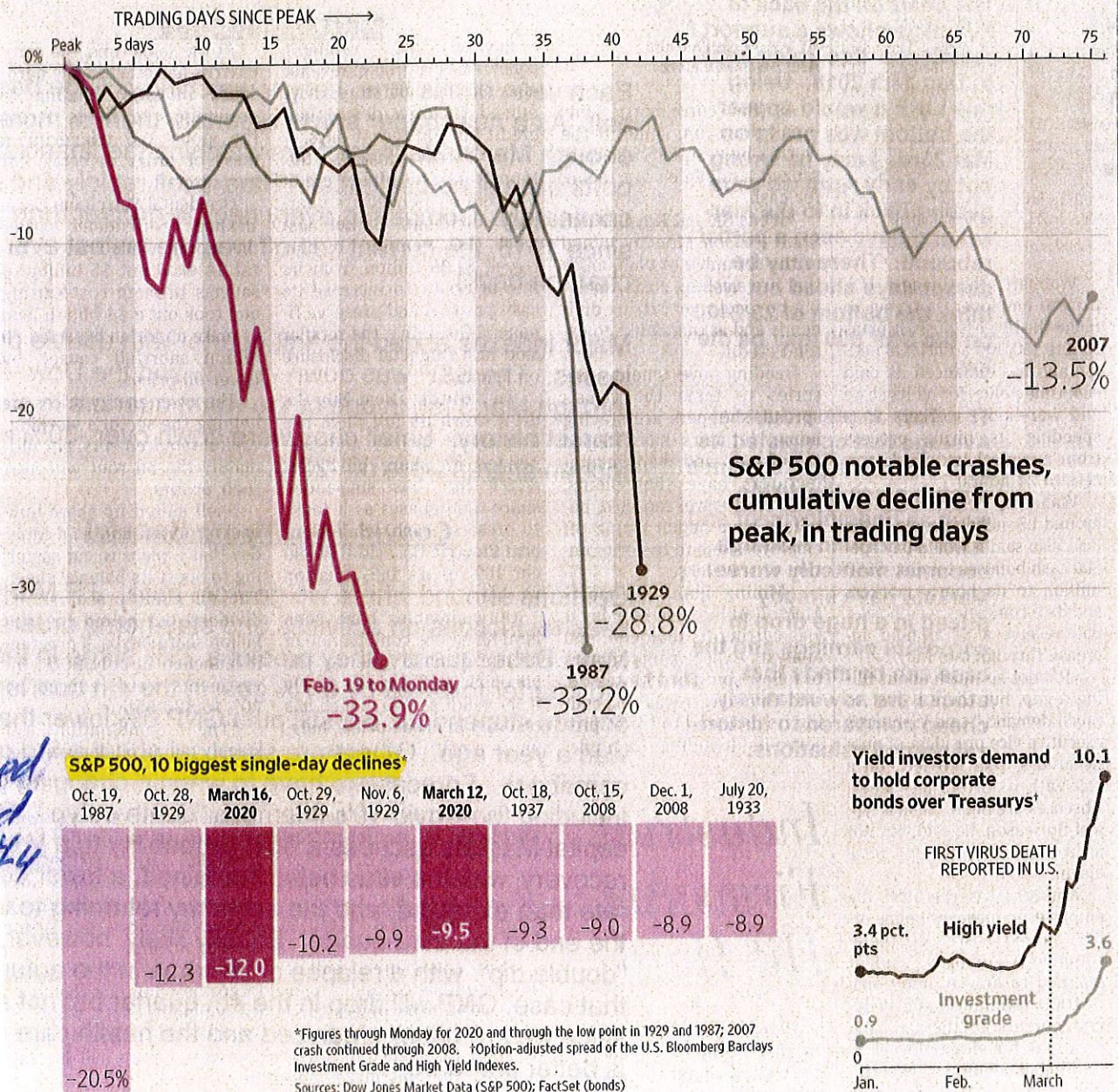
Convid-19 ...We are Hopeful

Opinions abound where we go from here. J P Morgan sees restrictions on activities and stay-home orders till, May. Subsequently, they predict a 23% surge in the 3rd quarter followed by a 7% gain in the 4th quarter. This sounds stupendous but still puts GNP 6% lower than it was a year ago. Others are skeptical about a 3rd quarter comeback. Forecasters have to wrestle changing data, including the Covid-19's infamous "death curve." RBC capital Markets ascribes a 35% probability to a V shaped recovery, with the virus being contained, a lower death rate than expected, and the economy returning to trend by the end of the third quarter. Equally likely, however, is a "double dip" with a relapse of the virus in the autumn. In that case, GNP will drop in the 4th quarter but not as much since we are better organized and the health care system is better prepared.

It is our sense that the economic picture will darken before it gets brighter, with the business outlook for April weaker than March, and May even more distressful, as our country navigates through a widespread lockdown. Assuming a flattening of the curve showing significantly lower deaths

Markets Melt Down at Fastest Pace Ever

I WAS AROUND FOR the CRASH OF 1987, 2008/09 AND this The Fastest one I've seen. However, every time, the market has recovered AND headed significantly Higher.



Big changes in Bond Market. Investors used to accept 4% on "B" Bonds now they want 10%.

and zero new cases the economy can recover quickly. A lot of maybes. Read more.

Opening the Economy

With 22 million people unemployed and counting, earnings are expected to decline 15% this quarter and 27% in the 2nd quarter. It's a massive slowdown never seen before. It may well be THE END OF JUNE until the economy even starts to roll again.

Even then, there are a number of imponderables from testing for the viruses, finding a cure and questions like, Will customers go back to their old routines?

So, with the economy still going down why is the market going up? The Dow tumbled from 29,500 to 18,200 in late March but has since rebounded half of that set back as investors anticipate a degree of control over the viruses and a partial reopening. The market looks ahead 8-12 months and estimates normal earnings and base stock prices on those projections.

The Case for Equities

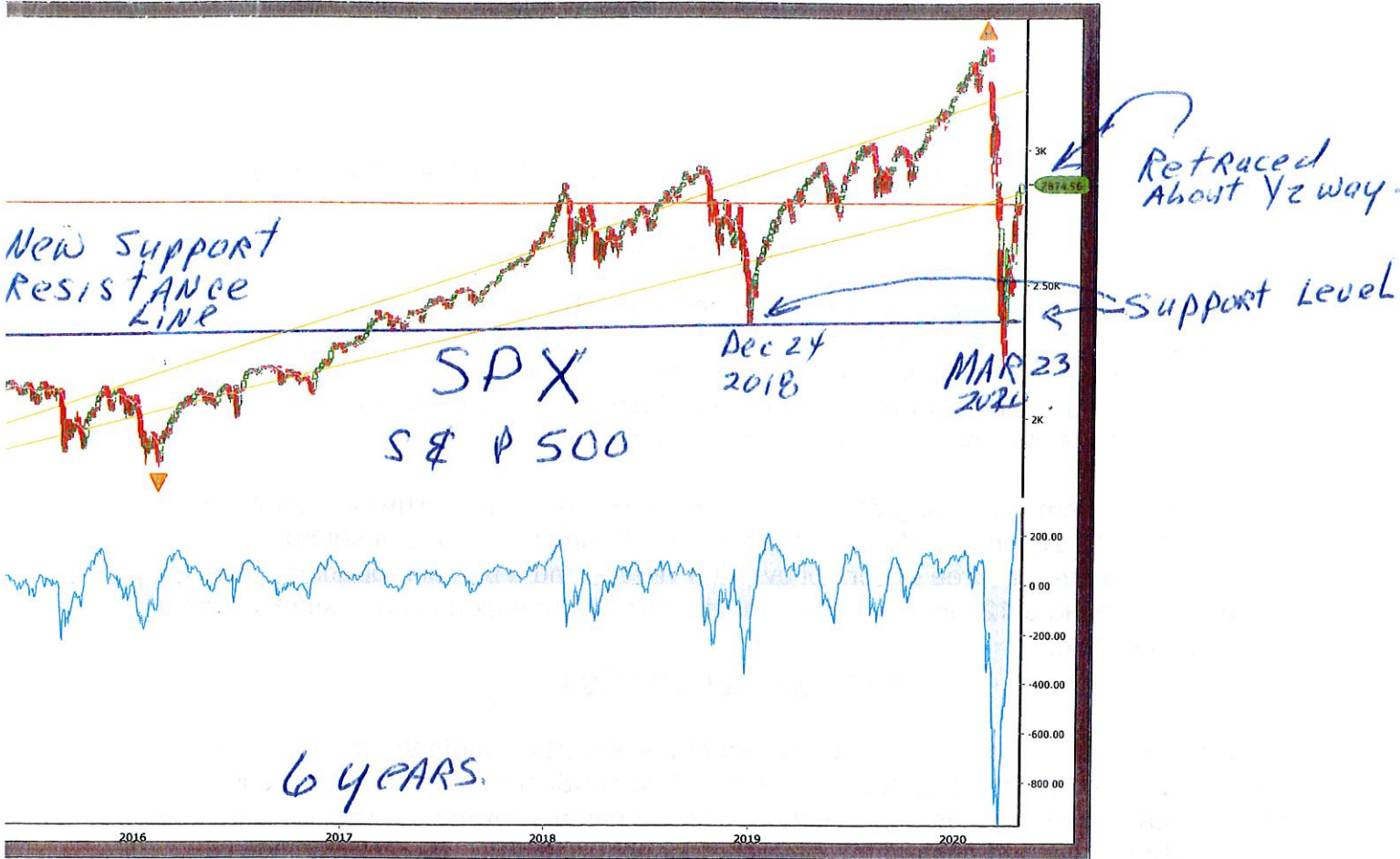
In our last quarterly client letter we discussed how 4 experts thought the market was fully priced. One expert, Abby Joseph Cohn of Goldman Sachs, flatly stated there is more that can go wrong than right. At that point, we had approximately 15% in cash and by February we had pushed the cash component up to 30%. By March things were getting more serious and we took the more conservative clients to 40% cash.

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Conclusion

It's worth reviewing what Warren Buffet has to say Last month, Becky Quick of CNBC, interviewed him. Buffet noted "The real question is: Has the 10 or 20 year outlook for American Business changed in the last month?" Buffet stated that: "In the 20th Century, the United States has endured two world wars and other traumatic and expensive military conflicts, the Depression, a dozen or so recessions and financial panics: oil shocks, a flu epidemic, and the resignation of a president. Yet, the Dow Jones average rose from 66 in the year 1900 to 11,497 in 2000". We welcome your calls.



SAME CHART - The upper is 6 years and lower 6 months

