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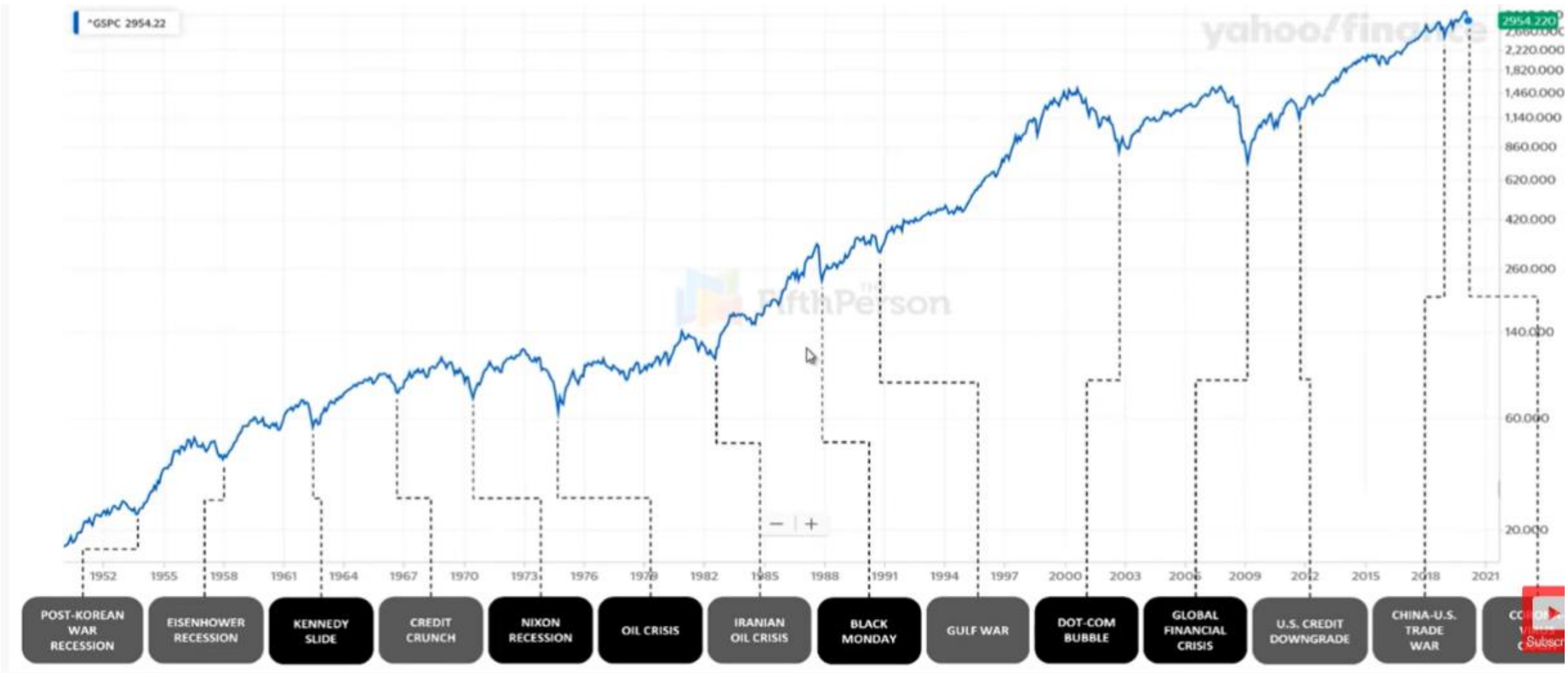
Avoiding Death by Virus – Investment: Get a sound strategy and stick to it

PROBLEM: *First your perspective goes, then you abandon your investment philosophy*. Damodaran 2020.



S&P500 since 1952 – it's a bull run despite numerous recessions and plenty as big as COVID-19 is producing. Don't get more complicated than this.

1. **Strategy Component I: The market will come back. Depend on the market Coming Back**

Recessionary Pullbacks Are Short Term

Recession	GDP Contraction	Duration	Time Until Next Recession
August 1929 - March 1933	-26.7%	3 Years 7 Months	4 Years 2 Months
May 1937 - June 1938	-18.2%	1 Year 1 Month	6 Years 8 Months
February 1945 - October 1945	-12.7%	8 Months	3 Years 1 Months
November 1948 - October 1949	-1.7%	11 Months	3 Years 9 Months
July 1953 - May 1954	-2.6%	10 Months	3 Years 3 Months
August 1957 - April 1958	-3.7%	8 Months	2 Years
April 1960 - February 1961	-1.6%	10 Months	8 Years 10 Months
December 1969 - November 1970	-0.6%	11 Months	3 Years
November 1973 - March 1975	-3.2%	1 Year 4 Months	4 Years 10 Months
January1980 - July 1980	-2.2%	6 Months	1 Year
July 1981 - November 1982	-2.7%	1 Year 4 Months	7 Years 8 Months
July 1990 - March 1991	-1.4%	8 Months	10 Years
March 2001-November 2001	-0.3%	8 Months	6 Years 1 Months
December 2007-June 2009	-4.3%	1 Year 6 Months	???
Median	**-2.7%**	**9 Months**	**4 Years 2 Months**

Source: National Bureau of Economic Research

Serious recessions since the 1929 crash (all bigger than the 1987 crash which lasted only a few months in the US)

2. **Strategy Component II: The Big Dips Do Not Last Long. Be Patient Waiting for the Come Back. It won't be that long.**

After the Recession Returns are Strong

	1 Year Prior	Recession	+1 Year	+3 Years	+5 Years
Aug 1957 - Apr 1958	0.8%	-6.4%	37.2%	66.1%	89.3%
Apr 1960 - Feb 1961	3.1%	18.3%	13.5%	34.8%	67.7%
Dec 1969 - Nov 1970	-10.7%	-3.4%	11.3%	20.4%	24.8%
Nov 1973 - Mar 1975	-0.1%	-18.2%	28.3%	21.6%	54.8%
Jan 1980 - July 1980	18.5%	16.4%	13.0%	56.0%	100.0%
July 1981 - Nov 1982	20.7%	14.4%	25.5%	66.4%	102.4%
July 1990 - Mar 1991	16.5%	7.6%	11.1%	29.9%	98.3%
Mar 2001-Nov 2001	-8.2%	-7.2%	-16.5%	8.4%	34.2%
Dec 2007-June 2009	7.7%	-35.5%	14.4%	57.7%	136.9%
Averages	**5.4%**	**-1.5%**	**15.3%**	**40.1%**	**78.7%**

Even the worst performances simply push out the time scale of recovery. This is a scatter of examples. All returns bar one are double figures. Some returns are spectacular. Choose the risk that suits you.

3. **Strategy Component III: Set a Target of at Least Full Recovery. Prospects of Even Better are Reasonable.**

Then, some flexible ***tactics*** to operate the strategy. Critical to note:

- This is not a precision game. It is a game of uncertainty – always. Don’t sweat precision. Do sweat how many life eggs are in this basket.
- There is a lot of history being relied on here. History does not repeat itself. It often rhymes. It is risky to ignore. It can be hard to beat.

- Doing nothing through indecision is rarely optimal if it really means “frozen in the headlights dying of a thousand cuts”.
- Even if the return to fear should be “not losing your shirt”, that outcome is far from guaranteed.

4. Tactics: With the Strategy in Hand, Now the Rules (some of several possibilities) to Execute It

Where is the bottom? Who knows but the mean gives a clue?

5. **Entry Tactic: Somewhere close to the mean decline should approximate the bottom**

- The mean since the early ‘50s is 33%. If the market was overvalued in the first place the decline could well be bigger
- Prior to COVID-19 the US market was likely 20% over value (P|E of 22 or so versus long run average P|E of 15 or so)
- The bottom might well be closer to 50% than 33%
- This is a judgment. You don’t have to hit the exact number. If you are too early you will lose money initially.

Wait for your choice of “the bottom” then enter.

6. **Tactic: Money Management - Control What You Allocate**

- Set aside a total amount to invest.
- Scale in makes sense:

Rule I When market is down 33% invest 40% of total
Rule II When market is down 50% invest remainder

These are guides – no one knows with precision. Somewhere within 10% of these is satisfactory. Don't sweat small, stay with the strategy.

7. **Tactic: What to Buy**

Don't sweat details. Either buy historical success that has a future. Or buy market leaders.

Option I	Buy a few (two or three) from Buffetts portfolio; or
Option II	Buy Amazon, a long run leader which is cash and growth rich
Option III	Some variation of this approach

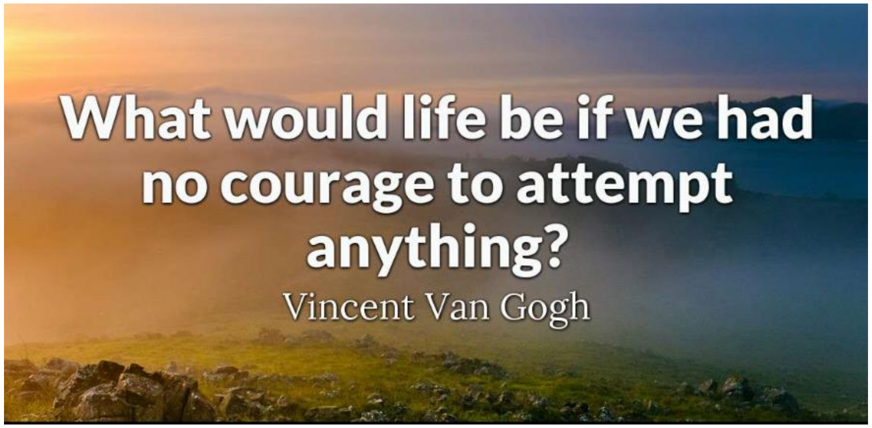
Don't try to be a miracle stock picker. Stick to the strategy.

8. Tactic: When to Exit

Must exit	When stopped out. Don’t climb back and ask for more.
At recovery point	When value restored to the “pre-crash” level
Preferred	at substantial price decline. Hold until 200 or 300 moving average price turns. History calls this a strong possibility.

9. Conclusions

- This is a measured bet against uncertainty – not a guarantee
- Many things could go wrong and likely will
- That is ever true however
- If totally freaked, invest less. Then all you bear is the opportunity cost of not taking the bet
- Doing nothing is a choice to bear that opportunity cost
- There are numerous variations to this but dithering over detail tends to cause inaction or suggest more certainty – wrongly



10. Sources

Scoured from numerous sources. Thanks to Teo Raynor, trading mentor with great action plans, Invesco, WealthofCommonSense, numerous shoulders of giants I stand on. www.awealthofcommonsense.com, www.tradingwithraynor.com, www.invesco.com .