CAPITALE INVESTMENTS

SIGNAL FROM THE NOISE

Dear Clients and Friends,

A lack of knowledge about this new virus has scared citizens, governments, and stock markets.
In the four weeks since the Dow's all-time high, it has dropped 19.3%.

**Volatility has only reached recent levels twice in history – in 2008 during the financial crisis and in 1987 when the Dow plummeted 22% in just one day.
Both times turned out to be excellent buying opportunities.**

I am confident the economy will come back even stronger with interest rates being cut and other measures like tax cuts also being considered.

I know that a lot of good stocks are suddenly undervalued, even cheap. And most important, my outlook for the next 8 to 12 months remains very bullish. We expect buyers to step back in once selling pressure is exhausted and the coronavirus is more in check.

The SP500 dividend yield is now higher then the 30 year Treasury bond. That has only happened twice before in history and the following 12 months the market was up over 20% on average.

Also, lower energy costs are good for everyone else long term.

Remember that the huge themes driving our economy and our world will continue to grow – like 5G, software, artificial intelligence (AI), breakthrough new drugs and healthcare options, and more. That doesn't change, either.

Since last September, 32 million Americans were infected with seasonal influenza, the flu, sending 310,000 people to the hospital and killing 18,000. According to the U.S. Center for Disease Control, since 2010 the common flu has been responsible for 12,000-61,000 deaths annually. The stock market hasn't tanked on that because it is a known quantity.

The media hype around this is circus like, except it's not entertaining. Consider this recent more level-headed stat from Bloomberg: media mentions of "Swine Flu" in 2009 vs coronavirus today: more than double the coverage today yet Swine Flu was 100 times worse (so far), infecting 61 million people in the US and 12,469 deaths, and 575,400 globally. Wow.

The terrible Ebola virus of 2014-2016 was a highly contagious and fast spreading disease that killed over 28,000 people with a nearly 40% mortality rate. It was contained and the market rallied on long term.

Yet these numbers won't be nearly as important as the day the market believes coronavirus is contained. Given past similar outbreaks, I think virus-related fears could subside by end 2Q. The world will resume its activity and businesses will fix their supply chains and resume production at normal capacity. Coronavirus is a temporary disruption to an economy that was doing nicely.

The Chinese stock market is up about 8% from its low on Feb. 3, which in turn was down about 16% from the previous high last April. There are reports China has closed all of its 16 temporary coronavirus hospitals. If China, a still developing nation with four times the U.S. population, can seemingly contain this virus why couldn't the U.S.? I think that's a question to which the bears have no real answer.
If you don't believe the Chinese government, I understand. South Korea, with 7,513 COVID-19 cases as of Monday, also has seen infections falling, and for a fourth consecutive day. I believe South Korean stats.

Here are some other things to think about: coronavirus isn't heat resistant, with just 26-27 degrees Celsius enough to kill it. Meanwhile, the Northern Hemisphere, where most of the cases are, is heating up. Normal laundry detergent will kill coronavirus. To me all this should not add up to panic.

The world could see a significant growth slow down. Goldman Sachs recently said the U.S. would register GDP growth of just 0.9% in the first quarter and wouldn't grow at all in the second quarter. But rest of the year will resume growth over 2%.

Besides lower energy prices, other offsets include likely future monetary and fiscal stimulus in the way of coronavirus fighting funds and a possible tax cut.

The market's P/E is now less than 17 times trailing EPS, not particularly expensive by historical lights. These potential factors don't seem to be pushed by the media or discounted by investors.

The scare-mongering numbers just don't add up. Yes, it could get worse but it could get better and history suggests it won't be nearly as bad as it's made out. I think we could have two "lost" quarters. And what if a vaccine or treatment is found soon?

Bottom Line: Lets not press the panic button. The World Health Organization today called the spread a pandemic. Could that mark the low?

As always, please feel free to contact me should you have any questions.

Sincerely,

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