

Markets are like a Bag of Grass Silage - Patrick O'Brien's comments on Market Activity

Good Afternoon,

This market downturn has prompted more calls to me from clients than at any time since 2008. If you are feeling uncomfortable, please give me a call 604 467 5321 at the office or 604 809 0931 on my cell (out of hours if you need to). I am also open to your friends/relatives/business associates who are looking for a more understandable and durable way to invest.

What Can We Expect Based on History?

If history is a guide (and it may not always be) then epidemics and oil price wars cause a downward spike as the human imagination takes over and panic selling occurs. Fear based decision making is detrimental in the modern day world of market fluctuation. In the current situation with fear about an oil price war and coronavirus, the anxiety is more $2+2 = 5$ rather than 4.

We can expect that as the new coronavirus case rate peaks, then starts dropping, the market will reverse course abruptly and rapidly move higher. I acknowledge that it doesn't feel like that today. Consider this though: China's new case rate has fallen dramatically and they were very close to recouping the losses on their stock market as of last Friday (March 6). I expect the same to happen in western stock markets – drop, then a short bottom, then recovery.

My (Foggy) Crystal Ball:

I can't tell the future, no one can. As a result of this discouraging reality about knowing the future, we invest primarily in companies that have a clear path forward to expanding their business (ex. electricity generation), hard valuable fixed assets (ex. wind farm), and in stable countries with the rule of law. These companies send their customers a monthly bill (ex. electricity again) that will be paid for in priority by captive customers. All of us must meet our basic human needs, supplied by these companies. This limits our downside when these unpredictable, periodic, but temporary downturns come along.

I believe (my opinion) that we will see the new case rate peak in weeks to months, but with more turmoil before the bottom of the market is reached.

The Saudis and the Russians will have to come to a compromise at some point as neither can afford \$30 per barrel oil for very long. I expect that the price of oil will rebound quite rapidly when whispers of a deal begin to circulate.

A Farming Example for the Stock Markets:

I've attached a photo of bagged silage here:



<https://www.eurobagging.com/en/silage-bags-and-accessories>

Growing and harvesting conditions vary greatly through the season resulting in grass silage quality that can support very different levels of milk production. The thing is that you don't know for sure what the quality will be in the next bag of silage, until you start feeding it. Chemical analysis only goes so far; the cow is the ultimate feed tester.

This makes a nice metaphor to a market downturn which is similar to when you start feeding a lower quality bag of silage. Overnight the cows may drop 10% in milk production as they react to taste, reduced protein, etc. Generally, there is no alternative but to feed it until it's gone. The good news is that when that bag is done, it is now in the rear view mirror. I believe that this will be the case for markets this time, as it has over the last 25 years that I have been investing. If you listen to Warren Buffet, a lot further back than that. So we are in a bad bag of silage right now, it is temporary. It's a problem only if you are a seller, an opportunity if you are a buyer.

I look forward to hearing from you and chewing through this bag of silage☺.