IT IS ALWAYS THE UNEXPECTED

When I reflect on significant stock market declines over the last forty or so years, the root cause has always been in plain sight, but the issue was always dismissed until it was too late. Hence my oft repeated saying, "it doesn't matter until it matters and then it matters a lot":

- **1987** – **lofty valuations of stock prices** and a misunderstanding of the effects of hedging risk and the interplay between stock markets and the index options and futures markets
- **2000**- The Dot Com Crash- a love affair with the internet resulting in **lofty valuations of web-based companies,** many riding on an idea and lots of speculators' money
- **2008** – The financial crisis - deregulation in the financial industry and the development of complex derivative-based lending resulting in a flood of mortgages and easy lending resulting in **lofty housing prices** which borrowers could ill afford.

Over the last few weeks the world has focused on the outbreak and spread of (the now named) COVID19. Apart from the rising death toll, the potential impact on travel, world trade and critical manufacturing supplies are obvious. Stock markets have dithered between rewarding improving economic numbers and moving strongly higher or fretting over the outbreak and moving sharply lower as investors move their funds to the safety of bonds or the centuries old favorite of last resort – gold.

Last week was a **"worry week"** with all major markets down and, as I write (early Monday morning), the implied opening of the Dow Jones is a negative 800 points. No one knows how Covid19 will play out and if the effects on economies will turn out to have a major and long lasting impact. I do know many equities are at **lofty valuations** – so as I wrote a couple of weeks ago using Doctor-speak, "cautious observation" is still the correct tactic.