I Remember 1987

By Steven Mayo, February 2019

Late last year, with headlines such as "The worst December in 10 years", it's not surprising that investors were getting spooked and running for cover.

I can say with great conviction that the quick market drop was from a variety of factors, but not likely a reflection of the health of the economy. This is why it feels like October 1987 to me, when there was also a quick market correction. I remember it well. I was in Toronto, it was my third year in the business, and the world stock markets went into a very short-lived 20%+ correction. Even then it seemed too much and it ended up that all the economic data that came out over the next six months was not as bad, definitely not recessionary, and the markets were back on track.

The most important lesson I learned was that the stock market and the economy are often two different animals, and on two different time frames. The stock market looks forward, trying to factor in daily news, corporate fundamentals, and growth expectations whereas economic data is only a reflection of what has happened in the past. The nasty correction this past December occurred when economic indicators such as employment were strong, not flashing red, so something else was clearly going on.

Unfortunately what happened had much to do with computer generated algorithmic selling for twelve straight days (selling created more electronic selling as support prices were breached). An entire article could be written about computer generated trading, which pushes markets higher and lower than they might otherwise be. There was also some year-end portfolio adjustments.

Today's reality, unlike 1987, is that hitting a sell button is much easier, and very short-term in nature, with no regard for the underlying strength of a particular company or sector. Add to this that large institutions, hedge funds, ETFs, or mutual funds with large positions may require liquidity at the same time, only magnifying the selling pressure into the market. The politics of the day: trade, tariffs, Trump, China etc. will one day be less annoying. However it's during these extreme times of pessimism that you get your best buys.

When I reflect on 1987, interest rates were much higher than today. Money will flow back to solid dividend paying companies in our relatively low interest rate environment. Accept that volatility is the new normal, but be ready to pounce when good companies are "On Sale".

In many previous articles I've stressed the importance of cash, and consider it an "Asset Class". As it turns out, it was the best performing asset class in 2018. This only happens about every ten years. As I write in early January, going into 2019 I believe we have an investment environment where true investors can flourish.

Facts about 1987: #1 song: "Faith" by George Michael, Ronald Reagan was the US President, Time Magazine Man of the Year: Mikhail Gorbachev, and the Champions were: Super Bowl-NY Giants, Stanley Cup-Edmonton Oilers, World Series-Minnesota Twins