

PPT Slides & Notes

Topic: History of Volatility

Delivered on 07 April 2020

Arranged by TATA Mutual Fund



Morgan Housel

Partner at The Collaborative Fund @The Collaborative Fund

Morgan Housel is a partner at **The Collaborative Fund** and a former columnist at The Motley Fool and The Wall Street Journal. He is a two-time winner of the Best in Business Award from the Society of American Business Editors and Writers, winner of the New York Times Sidney Award, and a two-time finalist for the Gerald Loeb Award for Distinguished Business and Financial Journalism. His work was featured in The Best Business Writing published by the Columbia Journalism Review.

His Twitter Handle: @morganhousel

INDEX

Page 1 – Introduction

Page 2 to 14 – Slides & his main points

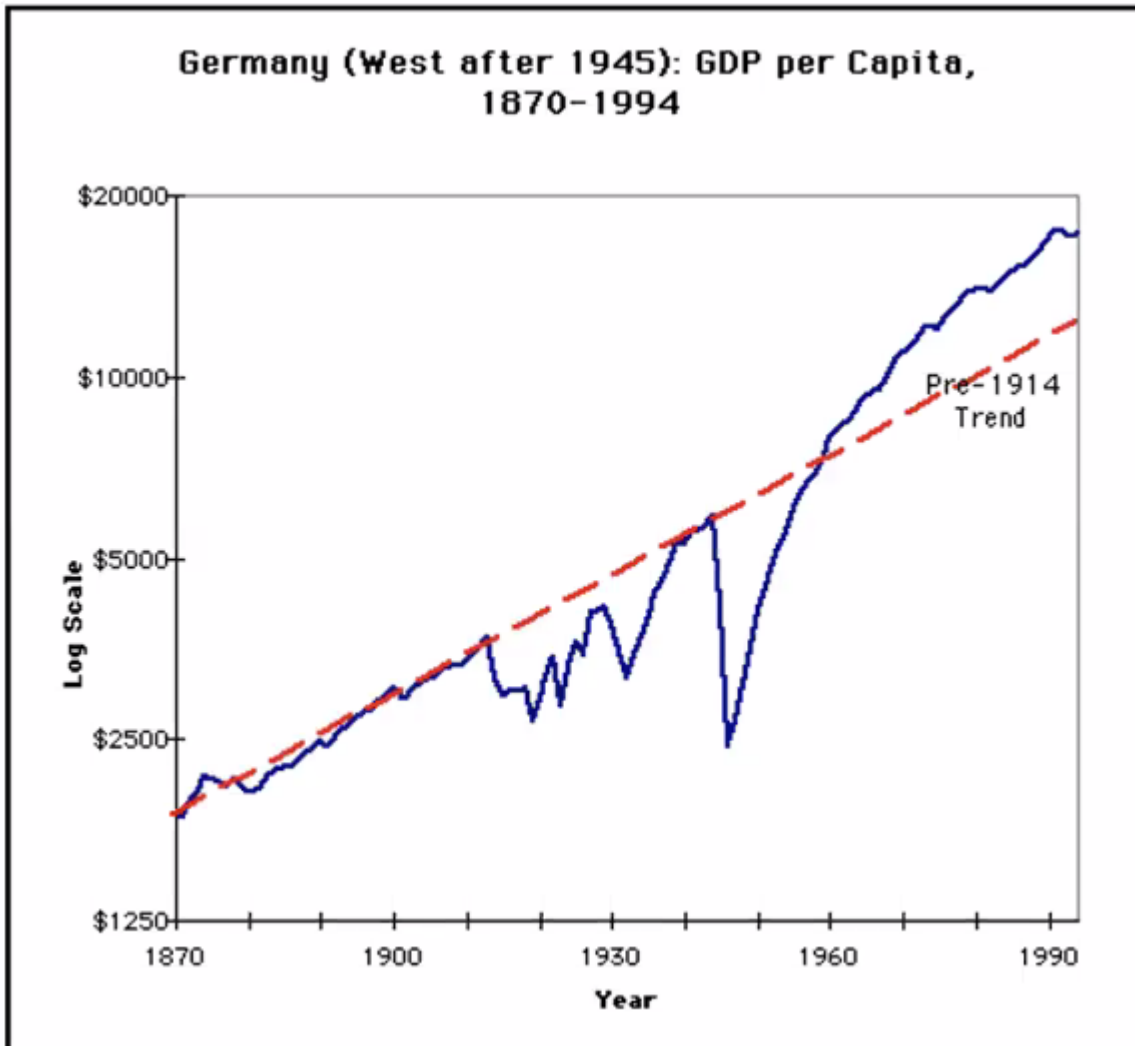
Page to 15 to 16– My notes from Q & A Session.

Slide 1

- We are in the middle of the worst economic event in modern history (by far).
- But we're going to get through this. I'm very confident in that.
 - Most stimulus and monetary policy in human history (more than WW2).
 - First time in history the world has a common enemy to defeat.
 - Faster mobilization of scientific resources than ever before.
 - Social media: increases urgency and speeds up reaction times.
 - Less important: stock market is not the economy.
- To understand my optimism, you must know the history of volatility, and how huge declines do not inhibit long-term returns.

He is a diehard optimist person.

Slide 2

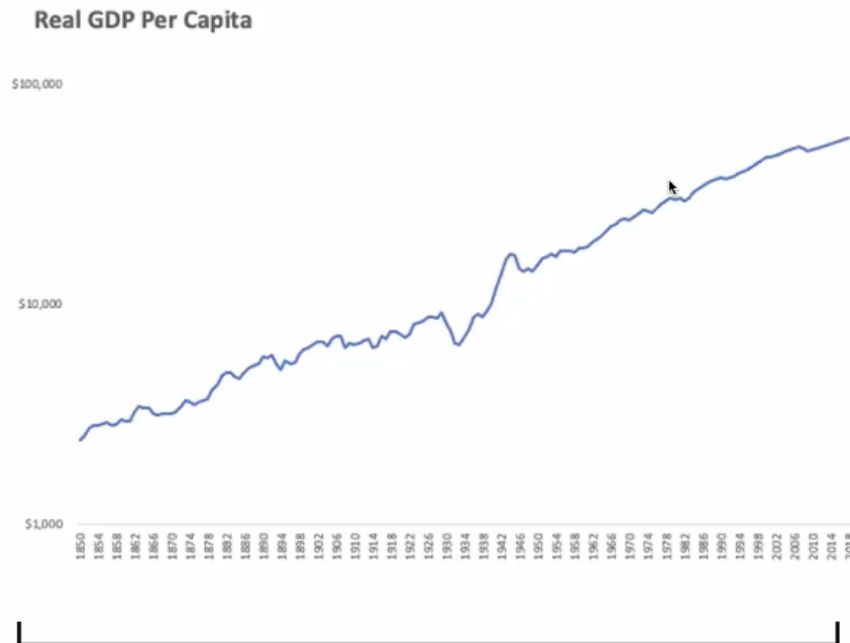


Volatility is part of everything - Markets or country's growth.

Slide 3

US Markets – Last 100 years

There are lots of overnight tragedies. There are no overnight miracles.



- 1.3 million Americans died while fighting nine major wars.

- Roughly 99.9% of all companies that were created went out of business.

- Four U.S. presidents were assassinated.
- 675,000 Americans died in a single year from a flu pandemic.

- 33 recessions lasted a cumulative 48 years.

- The stock market fell more than 10% from a recent high at least 102 times.

- Stocks lost a third of their value at least 12 times.

- Annual inflation exceeded 7% in 20 separate years.

- The words "economic pessimism" appeared in newspapers at least 29,000 times, according to Google.

What it takes to be Super Power---

33 Recessions lasting 48 Years!

Slide 4

Brain Tissues in Humans

Newborn



6 months



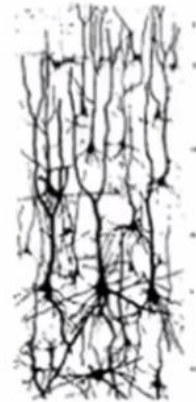
2 years



4 years

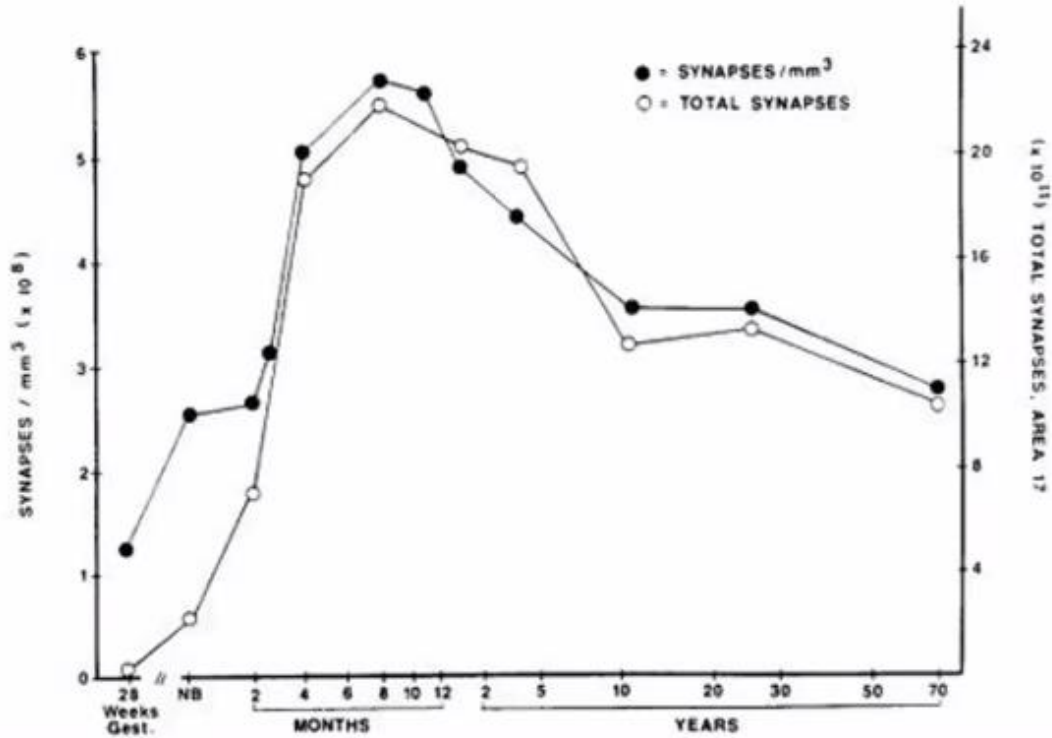


6 years



Slide 5

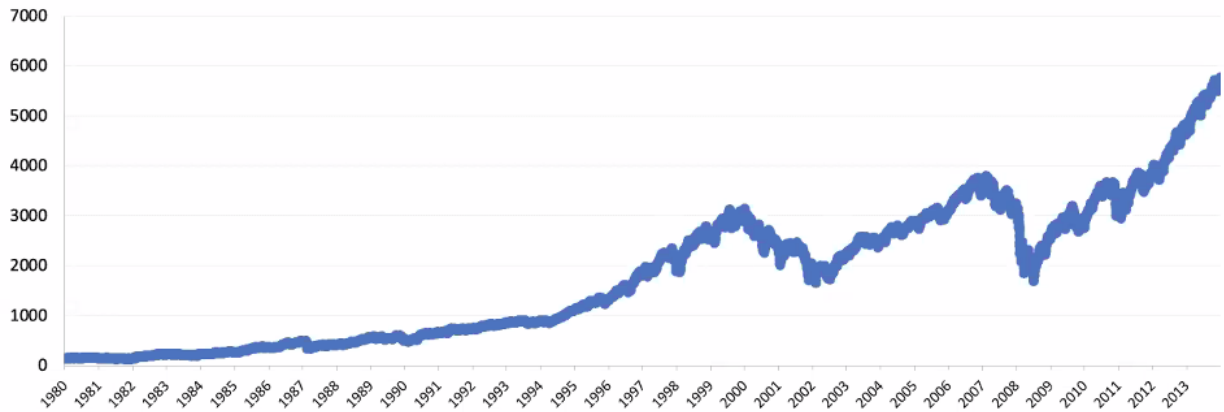
Graphically how brain develops



There is so much noise in chaos in first few months & years. Then things settle down. Similarly in investing it takes time. If you were to look how your kids mind is shaping up, you will be afraid. By with time it develops fully.

Slide 6

Russell 3000



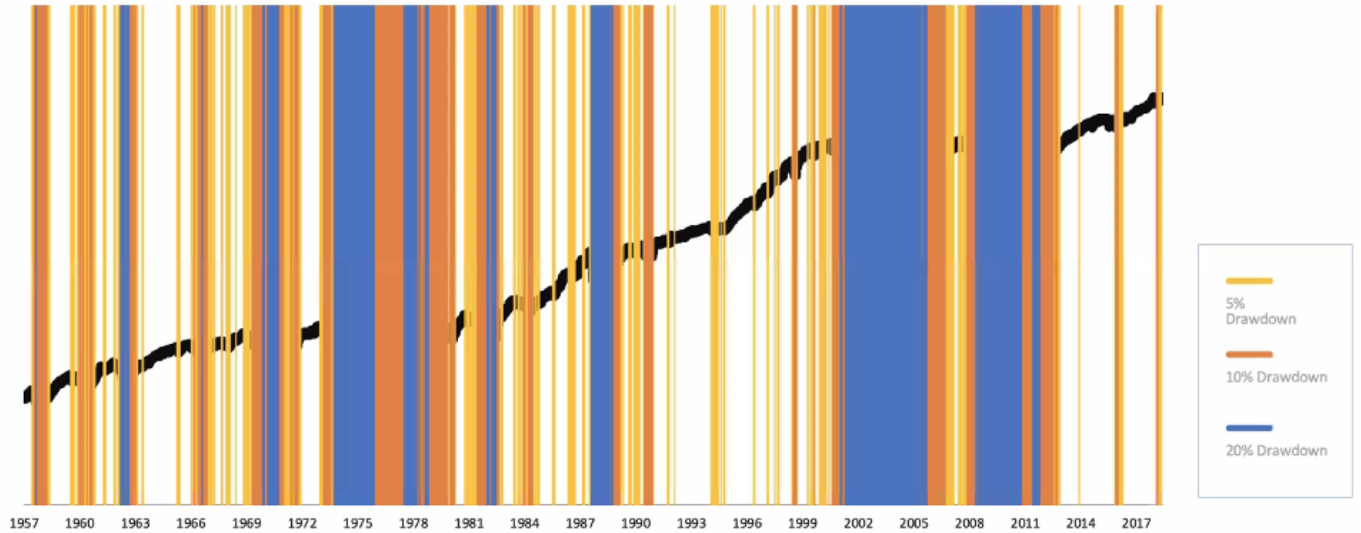
Median stock underperformed by 54 percentage points.

40% of companies lost money during the period.

7% of companies account for virtually all the return.

Slide 7

S&P 500



S&P 500, data from Standard & Poor's, 2018, author's calculations

Yellow is when drawdown – correction was > 5%

Orange is when drawdown – correction was > 10%

Blue is when drawdown – correction was > 10%

Slide 8 – Most Imp Slide

Stocks have declined at least 10% 95 times.

That's about once every 11 months, on average.

Stocks have declined at least 15% 44 times.

That's about once every two years.

Stocks have declined at least 20% 22 times.

That's about once every four years.

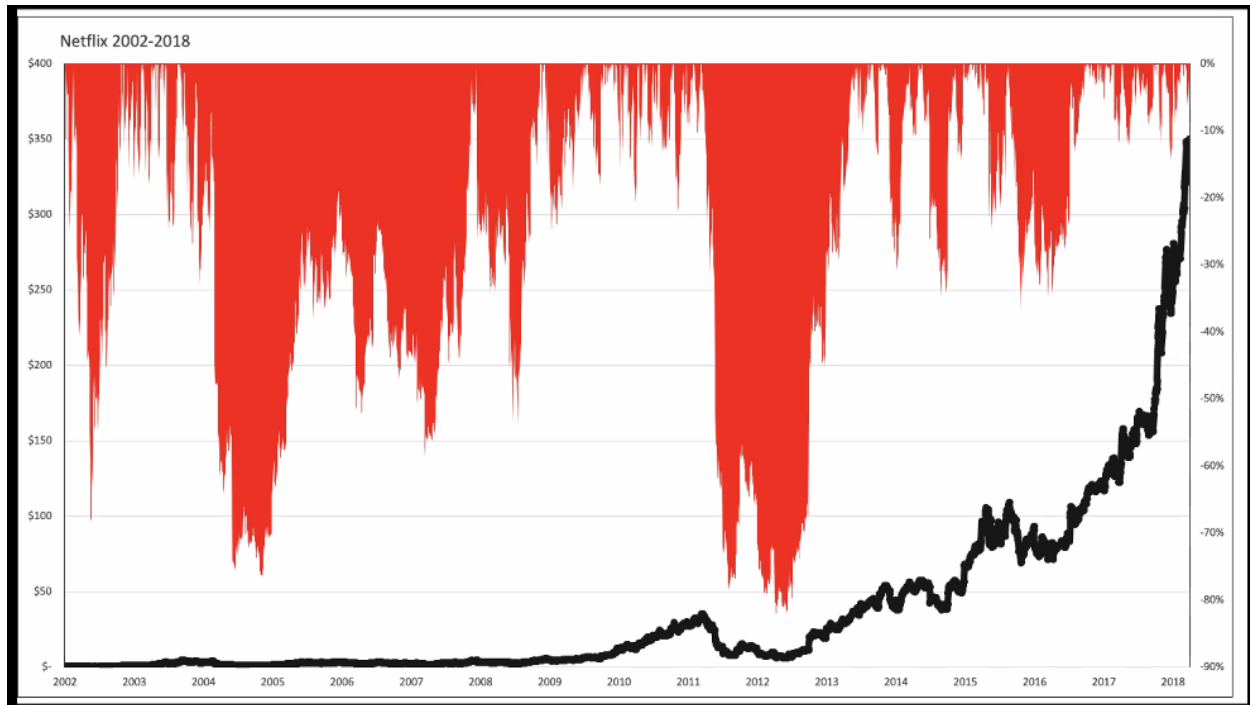
Stocks have declined at least 30% nine times.

That's about once every decade.

Stocks have crashed at least 50% three times.

This will happen maybe twice in your lifetime.

Slide 9



See how Netflix as a stock has made wealth for its shareholders!

But the stock has corrected 100% plus twice in history.

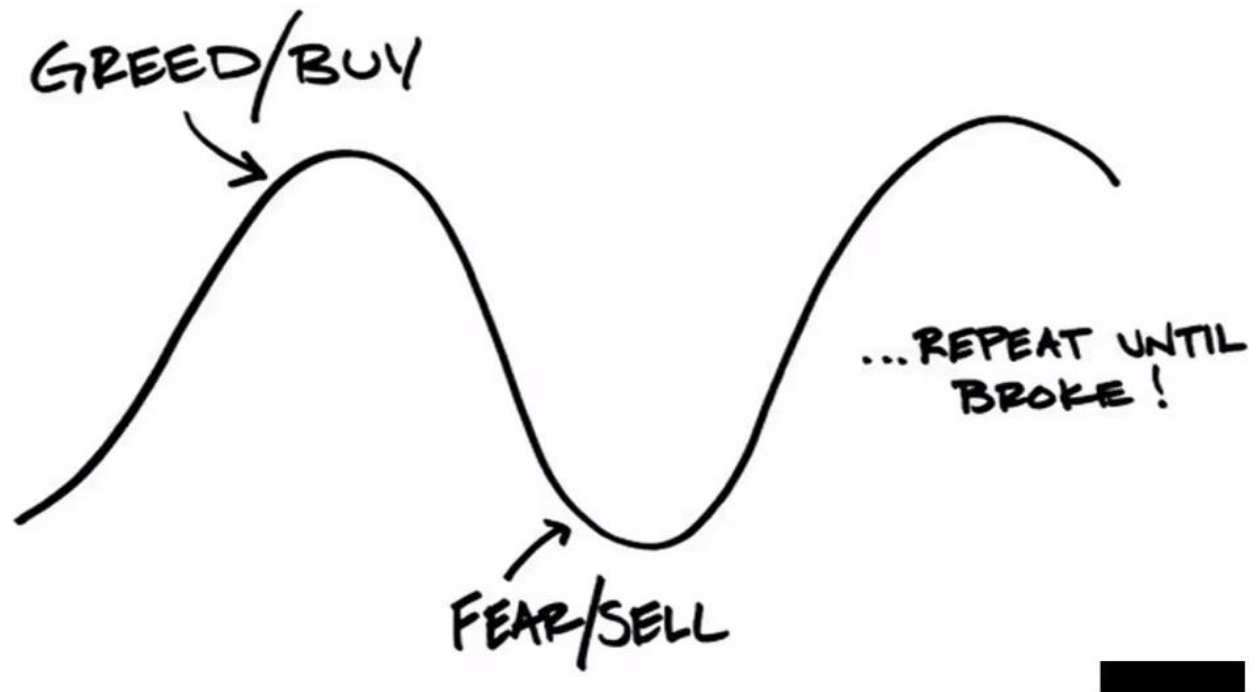
That is the endurance or pain you need to undergo to make wealth.

Slide 10

Stock	Total return, 1995-2015	Percent of days shares were 30% or more below previous two-year high	Percent of days shares were at a new two-year high
Monster Beverage	105,483%	44%	5.8%
Biogen	60,210%	38.4%	5.2%
Celgene	41,899%	41.3%	5.1%
NVR	26,880%	12.4%	6.7%
Gilead Sciences	21,107%	18.1%	5.9%
Ross Stores	17,418%	23.2%	7%
Middleby	10,558%	35.4%	5.3%
TJX Companies	9,992%	30.2%	5.5%
HEICO	8,290%	43.1%	3.5%
Starbucks	7,326%	14.2%	7.2%

Best Stocks have faced volatility but made money!

Slide 11



Carl Richard's sketch – The Behavior Gap

"The man who can do the average thing
when everyone else around him is losing his mind."

Good investing is not about making great decisions.

It's about consistently not making mistakes.

Quote by :

Mr DD Eisenhower : Ex-President US, Army General & Statesman.

Slide 13

- Volatility doesn't mean the market is broken or something is wrong.
- It is the price of long-term returns.
- Since market returns are very good, the "price" is very high. Volatility is more common than people think.
- "History never repeats itself; man always does."

His Points during Q&A:

My confidence as a citizen & medical situation is shaken. But my belief in equity & as an investor is not. I am positive.

We have been buying in the last couple of days.

I am positive about the amount of stimulus. In the absence of stimulus, I would have said: "pack your bags".

VIX does not matter. They are looking at next week's price we are looking years ahead.

We have seen average bonds moving to high credit in the US.

Banks & Pension funds want bonds at any rate but SAFE.

The interest rate will be low for a long time.

The corporate bond market will not blow but will be better than Gsec.

The amount of urgency in Pharma to find drugs has never been seen. They will be more productive & proactive. Seeing the Manhattan project in Pharma now.

More demand for \$. But banks in the US have problems. So it will shift. Few nations will suffer as they continue doing business in dollars only. Need to find \$ alternative.

Trade Wars are unpopular in the US.

Trade Wars will go up if he gets re-elected in Nov 2020.

The US may bring Supply Lines back from China. The world will feel "let's be less connected". Global trade will suffer for 3-5 years.

2008 problem started with Banks. This time it starts with people.

In 2008 also there was a big stimulus. It stopped damage to bog extent. Hence we got stimulus soon this time.

People did not change (buying habits) in 2008. This time it will change. More Americans will feel the economy collapses in every 10-12 years. So - save money for the future.

Majority returns will come from a minority of holdings. Whether you invest in Index, Active or MFs. Buffet returns come from his top5 holdings. Ben Graham also made returns through Geiko. You remove it, Ben is average.

Personal finance is more personal as everybody has a situation. I may keep more cash than average. So many would say this is not good. But for me surviving may be more important. The Margin of Safety.

One can be very optimistic about his stocks, so he might keep 20-30% cash. So that he remains solvent till cycles move. Cash will stop selling stocks.

Most investors in the US do not participate. They wait and let dollar-cost averaging work. This is only short term funds & hedgers that cause market volatility.

As an advisor, do not make investors traders. Don't change their game.

ETF & Algo – I am not sure the reason for this volatility are these as it happened in the 90s or 2008 too when Passive & machine trading was less. We have no data that suggest so.

There is a study if Algo played an important role in investor returns. It did not affect much returns for investors.

Stimulus Source – No issue for FED Res to issue low or zero cost bonds as they are getting subscribed.

US has never repaid debt increased by stimulus since WW2. GDP increases and DEBT remains controlled.

Individuals have to pay a debt, not companies (perpetual life) & countries.

GDP Driver – after the disaster it is most productive as people want to move away from depression by engaging in meaningful work. Look at Japan after WW2.

FII runs to bring money to safe countries. So similar movement may be seen.

If you want to gauge optimism & pessimism - not to see what they say, watch for how they are investing.

I will be shocked if do not make a breakthrough in medicine to make counter medicine to C-19.

There is so much pressure and many problems got solved when there has been tremendous pressure.

FED is printing money as a local less demand for money. So the money goes to stimulus seekers.

Sectors provide household goods, food, etc will do well. Movie, Airlines, Cruises will suffer.

We are definitely in recession as 2 quarters GDP has fallen & GDP fallen by 10% is also a sign of recession.

But the recession does not change my investments. I have (funds) a lot of cash.

I may buy more. But nothing will change due to recession.

Recovery period – Some feelers by Summer (US). Full recovery it may take a year.

The US as a developed country has an advantage. EMs will have problems – inflations, short of funds, etc.

If debt position increases countries may start looking inwardly.

Economy Gr – Population Growth + Productivity Growth. Next 50 years India & Africa have an advantage.

Consumption will not be a leader as it has been a leader last 50 years. Investment in physical things (manufacturing) will lead to growth.

Tech companies have an advantage as they can WFH. But manufacturing? Compare Google & Boeing. NASDAQ has this advantage over the S&P 500.