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When the Time Comes to Buy You Won't Want To

** Panic has gone viral over the last week*
** In swiftness and scope, stocks have experienced an historic decline since mid-February*
** Undoubtedly there will be economic knock on effects from the spread of coronavirus*
** But, lower prices (and panic/fear) are the ally of the rational and long term buyer*
** Yesterday, for the first time since late 2018, the S&P Index traded through my intrinsic value estimate*
** Value investing (and intrinsic value calculus) helps you find your bearings when reassuring landmarks are no longer visible*
** Using an intermediate term time frame, market reward may substantially exceed risk*

"When the time comes to buy you won't want to."
- Walter Deemer

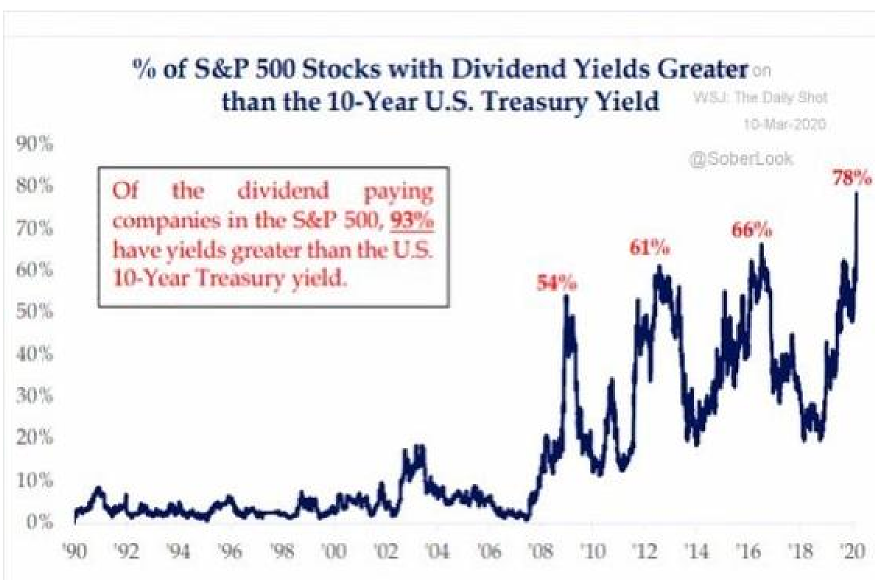
"Remember, the stock market is a manic depressive."
- Warren Buffett

In the investment world the rear view mirror is clearer than the windshield.

Yesterday the dividend yield on the S&P Index rose by over 16 basis points to 2.12%

At the same time, the yield on the 10 year U.S. note dropped by 24 basis points to approximately 0.50%.

The differential between the S&P Index dividend yield and the 10 year U.S. note yield is greater than at any time in over a decade. The chart below shows that nearly 4/5ths of all S&P socks now have dividend yields above the 10 year U.S. Treasury yield:



The risk premium (or the difference between the earnings yield of the S&P Index and the risk free rate of return (e.g., the 10 year U.S. note) is also the widest in a decade.

While I recognize that there are "good" interest rate declines and "bad" interest declines - and that the recent rate drop may be "bad" - the differentials are astonishing.

For those that believe that coronavirus will be addressed successfully by science and that the precipitous drop in energy prices could be transitory - on a valuation/interest rate basis (above), stocks have rarely been so inexpensive.

"In the 20th century, the United States endured two world wars and other traumatic and expensive military conflicts; the Depression; a dozen or so recessions and financial panics; oil shocks; a flu epidemic; and the resignation of a disgraced president. Yet the Dow rose from 66 to 11,497."
- Warren Buffett

For those that believe in Warren Buffett's above quote regarding the historic resilience of the U.S. economy (through thick and thin) and the ability of our markets to overcome the many obstacles over time and are of the view that the fear/panic associated with coronavirus and other recent, adverse credit events may be temporary -- investors (who can stay unemotional and take advantage of stocks on sale) and have a longer term time frame may have been provided this week with an exceptional entry point to buy stocks (with a far more favorable reward vs. risk than at any point in several years).

I have aggressively purchased stocks since late Thursday - this has obviously been a bit premature and has opened my strategy up to criticism on our site, on Twitter and elsewhere. But, after four decades of investing my skin is quite thick. While there are always exceptions to the rule, I have learned to tune out the many critics that have proven to have very big hats but no cattle, a bark but little wealth and will not likely be heard of in the future.

I have been guided by my view of a S&P trading range of 2850-3300 over the next 6-9 months. That trading range was undercut and pierced by about 100 points, or a bit more than 3% yesterday. And, for the first time since late 2018, the S&P Index fell through my calculation of intrinsic or fair market value. (This exercise of value investing helps you find your bearings when reassuring landmarks are no longer visible).

I have learned (and so have many others in the past three weeks) that the evolving market structure is the tail that wags the market's dog - both on the upside and the downside. (The new and dominant products know much about price but little about value).

I have learned, from my former Putnam associate Wally Deemer, that the importance of what he used to say that "when the time comes to buy you won't want to."

I have learned to face fear - and we are at extreme fear now:

CNN Fear & Greed Index

Importantly, I have learned the hard way (and I have the scars on my back) to always listen to Warren Buffett, who is one of the smartest investors of all time (and also worth about $80 billion) and to Lee Cooperman, who I had dinner with last night (who also has a couple of bucks) and who was also buying opportunistically over the last few days:

Bottom Line

"Whether we're talking about socks or stocks, I like buying quality merchandise when it is marked down."
- Warren Buffett

We all know the investment light can, at any time, go from green to red without pausing at yellow - and that is what happened in mid-February.

Panic has gone viral - and the deep red traffic light called an abrupt halt to the market and has recently taken the traffic to a dead stop.

To be sure, the events of recent weeks are concerning and are testing of the mettle of even the most dispassionate of investors. (I am certainly not immune to the emotional elevator ride down since late last week. I have not slept well over the last few days and my stomach is upset as my nerves are on edge).

Fortunately, the financial system does not resemble that which existed prior to *The Great Recession of 2008-09*. Banks are extraordinary strong (though yesterday's price performance is clearly not testimony to their overcapitalized condition) and credit risks are far better diversified. In a broader sense, unemployment is low and our economy and corporate profits will likely prove far more resilient than many bears now suggest. Though economic growth will be dented (by the knock on effects of coronavirus) and 2020 EPS will be reset lower, systematic risk is not apparent.

Price is what you pay and value is what you get. I remain linked (some might say hostage!) to my calculus of fair market value of the S&P Index (my expression of value) which suggests that, after a year of market complacency, the spread of fear and panic has created value. Indeed, for the first time since December, 2018, share prices moved slightly (-3%) below my measure of intrinsic value.

And, when the time comes to buy you won't want to.

Don't lose sight that, in the next few years, someone will be sitting in the shade today because he planted an investment tree today.

I want to be that someone.

Position: None

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