

Perspective

I started an investment club in college with \$100. I had seven buddies that also saved \$100, so we had \$800 all-in.

Three months later, the Dow fell 22.6% in a single day. The next morning, they delivered this newspaper to the apartment I was renting with a couple of those buddies. When the subscription was up, I couldn't afford to renew it.

At Fidelity, I was assigned to cover software and IT services in Europe in late 1999, and had ramped up on my sector just months before the tech bubble started bursting.



Hey Mr. Jones, you spelled "West Lafayette" wrong.



From March of 2000 to October of 2002, the NASDAQ composite - an index of over 3,000 securities - dropped 78%.

One of the stocks I covered was a German company that marketed e-commerce software. It had a market cap of over \$70 billion. It's still around, actually. It's called Intershop. Its market cap today is \$30 million.¹

That means it fell by 75%, then another 75%, then another 75%, and then another 75%. And then another 90%.

I launched the Alpha Europe strategy in April of 2008. In the six months from September of 2008, the S&P 500 dropped 46%.

I've been through some rough times.

This is not one of those times.

But it still sucks.

Despite all of these experiences I've had, I'm not immune from the emotion. Even I am struggling to stay objective. Sure the market is down a bit, but what is happening just below the surface is – for some of us – even tougher to stomach. The recent (and violent) outperformance of low-vol, growth momentum stocks has even the most fundamental of stock-pickers wondering if there is any point to visiting companies or building models. Heck, it even has the quants – who think stock-picking is for dinosaurs – questioning their own frameworks, if not the entire theory behind what it is that supposedly drives momentum, or value, or low-vol premiums.²

¹ Yes, I had a sell on it.

² <https://www.aqr.com/Insights/Perspectives/Never-Has-a-Venial-Sin-Been-Punished-This-Quickly-and-Violently>

So, I've seen wilder times than these and I tell myself these experiences help, but maybe they don't. Even I find myself occasionally wondering if "this time it's different."

Guess what I've concluded? Yes, interest rates are basically zero. Yes, the coronavirus may spread like wildfire. Yes, there is significant political uncertainty around the world. Stocks are going down on beats and up on misses. It feels like Bizarro World. And guess what else?

This time it's probably not different.

Markets ultimately work. They find themselves. The right price finds itself. It got ahead of itself in '87, then got behind itself, then found itself. The NASDAQ got way ahead of itself in 1999 and early 2000, then got behind itself by late 2002, then found itself. The S&P got ahead of itself in late 2007, then behind itself by March of 2009, then found itself.

And the tough pill for all of us to swallow is that when it is all happening, we don't know that it is happening. For those that may have guessed that the Nasdaq was ahead of itself, you may have started feeling that way in 1997. Some may have suspected that there was a housing bubble, but we probably started sensing that in 2006.³

We can only answer the question about when or why the market was ahead or behind itself in hindsight. Only *after* experiencing the ebbs and flows of market movements can we attempt to diagnose why markets did what they did. And even then, we get that wrong half the time. And tomorrow? Well, forget about it.

So it just makes zero sense to try to predict any of it in advance. Half the people that try will get it right, and half won't. And it won't be skill that predicts who finishes in the right or wrong bucket, it will be luck.

Yes, market volatility may create individual dislocations or other opportunities, but we're all probably going to have a better time of it trying focus on those specific dislocations rather than on the next market move.

So here is my advice to the investor, ranging from my son with \$500 in his Ameritrade account to my buddies that manage billion-dollar hedge fund portfolios.

Disposition bias, loss aversion, and anchoring make for a poisonous cocktail; so wipe the slate clean.

Forget everything. Forget where you bought or shorted any of your positions, or when you did it. That is water under the bridge. Then re-underwrite your theses, and do so as objectively as you can. Then take your 500 dollars or one billion dollars and ask yourself what you would do with it if you bought your first stock today. Ask yourself what you would do with it if you launched your hedge fund today.

And if the answer is that you would buy (or short) the exact same stuff you have now, in the same size, then you do nothing.

And if the answer is to buy or short different stuff, or the same stuff in a different size, then do that.

It's that simple.

³ And thanks to hindsight bias, not as many of us were feeling as queasy as we remember.

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