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Inside this issue

Looking at Other 20%+ Declines for Clues

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20%+ stock market declines do not occur very often. In fact, since 1987 we have seen a total of 8 from high to low. Some have been associated with recessions while others have not. Some are short and sharp while others are most drawn out. Obviously, we only know that a 20% decline has ended with the benefit of hindsight. That makes the longer ones more difficult in real time.

I am going to review all of these declines below so you can see the year, duration, depth and length of time to recover.

First is the crash of 1987 which turned out to be a market event only that scared the masses into believing another depression was coming. While the bottom was pretty quick, 6 weeks after the crash, the recovery was slowed because the "geniuses" at the Fed were worried about inflation and began hiking rates in mid-1988. The price pattern of 1987 looks most similar to 2020.
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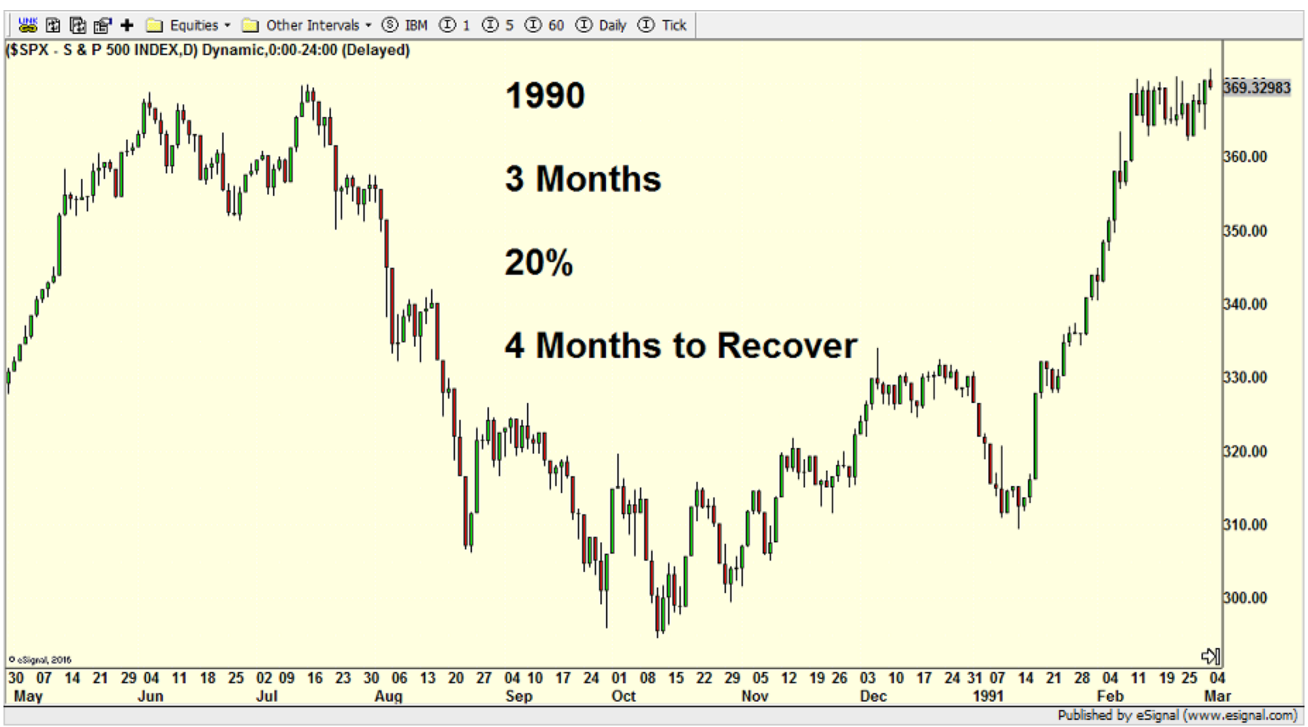
1990 is next. In the general context of the ongoing S&L Crisis, Iraq invaded Kuwait and oil spiked from $15 to $40 to tip the U.S. into recession. The internal low was in August with external lows in September and October. Long after the October 1990 final bottom, the U.S. went to war against Iraq in mid-January 1991 and stocks went vertical from there.



In 1998, the market saw a perfect storm of Russia defaulting on her debt in late August and then Long-Term Capital Management almost taking down the financial system in October. August was the internal or momentum low with October being the final low. Similar to 1987, this was a market event only that led to the Dotcom Bubble being inflated during the recovery.

The long bear market of 2000-2002 is below. This was a three part event that began with the Dotcom Bubble bursting in March 2000. 9-11 followed with a mild recession and the corporate malfeasonance leg concluded the bear market in October 2002. The internal low was complex with September 2001 and July 2002. Even the external bottom wasn't simple with October 2002 and March 2003. Because the decline was so deep, the recovery took a long time.

Below you can see the financial crisis bear market which was also long and deep. This recession was the worst since the Great Depression. As the bear market began, there was an opportunity for it to be over with the first 20% decline in Q1 of 2008. However, as it became apparent that AIG was collapsing and Lehman was next, stocks blew right through their early 2008 lows. The internal low was October 2008 with what seemed to be an external low in November 2008. A 20%+ rally ensued into 2009, but much lower lows came into March 2009, the true external low. Similar to 2000-2002, the recovery was long as the economy adjusted to the new normal.

After the financial crisis, each and every decline from 2009 to 2016 had calls for another crisis or prices collapsing to 2008 levels. 2011 was very similar to 1998 with an initial plunge to the internal low on news of the U.S. possibly defaulting on her debt, a downgrade of our debt and the first shot across the bow of Europe's sovereign debt issues. Two months from the internal bottom, the external low was seen, followed by another decline to Thanksgiving.

Q4 of 2018 is next. The decline was unique. The initial decline in October had all the makings of an internal low with the external bottom in late October and November. However, markets became unglued in December as the Fed remained hawkish as the economy slowed. The December selling wave was historic as stocks closed lower than where they opened for 10 straight days, something not seen since the early 1930s. 2018 saw the very rare "V" shaped bottom that never looked back once the rally began. As with most of the other declines, stocks recovered very quickly.

With all that, we now come to the 2020 crash. Similar to 2011 and 2018 (and really 2010, 2015 and 2016) the computer algorithms which dominate most of our trading ran amuck. Once they get going in one direction, it's very difficult to stop them until they exhaust themselves. Few seem to complain on the upside though. I won't rehash all the precedents set during this plunge, but it was the fastest 10% and 20% decline from a new high in history. As you can see, the total decline was only one month, the fastest in my study.

On March 22nd, I emailed an update that concluded a few tiny green shoots were developing and a low of some sort was at hand. That bottom came on the 23rd which I am labeling the internal or momentum low, similar to other ones listed above.

In hindsight, like I showed with the previous examples, everything looks crystal clear, neat and tidy. In real time, it's not so easy. First, rarely have we seen a 30% decline. 1987 was it. They usually stop earlier or go deeper. And second, it's unusual to see a "V" shaped bottom. Before Q4 2018, they only occurred in an ongoing bear market, like 2001. So that begs the question if "V" bottoms are now somewhat usual and expected or still an outlier.

We are also to question whether stocks have seen their final low and are now in a new bull market that doesn't go anywhere near the March 23rd levels. Two weeks ago, pundit land was full of people looking for the S&P 500 to collapse below 2000 on the way to the 1500-1700 range. I never saw that scenario unfolding. Shortly thereafter, the majority moved to believing the rally would peter out with a revisiting of the March 23rd area, plus or minus a few percent. That was my initial camp.

After an epic rally last week, the masses are squarely in the camp that stocks have bottomed for good and revisiting the March 23rd lows was no longer in the cards. A number of high profile pundits have called for fresh, all-time highs this year.

Dow 40,000 Coming But Rest of 2020 Likely Not A Layup

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During the vast majority of the bull market from 2009 to 2020, I was always among the most bullish people giving forecasts. I always kidded my buddy Tony Dwyer, market strategist at Canaccord Genuity, that he was the second most bullish person in the industry. I fondly remember Joe Kernen of CNBC Squawk Box fame laughing when I called the Dow to go from 14,000 to 18,000. My 20,000 target was equally dismissed.

In late 2016, our model first opened up Dow 30,000 as likely before a major decline unfolded. That was universally dismissed as impossible because the economy just kept plodding along without enough juice in the growth. In hindsight, I should paid more attention to the fact that the model was unable to offer a subsequent higher target after Dow 30,000 like it has in the past. I just figured the model was late, not indicating anything.

Today, I am not nearly as bullish for the rest of 2020 as others although I do see higher prices on balance by the time the year ends. While I do see Dow 30,000 being hit in 2021, the path to get there isn't likely to be as easy as we have previously seen.

Dow 40,000 also becomes possible in my work once Dow 30,000 is achieved. Now that's something very positive on a long-term basis with even a chance at 50,000 a number of years out this decade.

After the market closed on Thursday, it was revealed that their main anti-viral for Covid was showing very promising anecdotal results. If this can significantly help avoid death and can be mass produced, we do have a real game changer among the more than 100 vaccines and therapeutics currently being tested. Stocks surged after hours as they awaited President Trump's press conference to lay out his plan to reopen the economy. Knowing how Trump likes to pump up the market, especially on days when the economic news is bleak, I do not believe he will disappoint.

All this should lead to massively higher opening on Friday with the Dow up somewhere between 750 and 1250 points. Cheerleaders will be out in full force. I expect a chorus of "I knew this was coming". Time for victory laps.

As much as I want to waive the flag and start chanting "USA, USA", I don't think tomorrow is the day. We will see how stocks trade, but my sense is that Friday may be more of a short-term selling opportunity than reason to go all in for a run to new highs.

More Good News. RMDs Waived But Caveat Emptor on Mortgages

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Recently, I wrote about the April 15 tax filing date being extended to July 15 and the presumption that contributions earmarked for 2019 would also be extended. The IRS confirmed that this week. I also wrote about converting your Traditional IRA to a ROTH IRA, something everyone should consider. Additionally, the recently passed $2 trillion CARES Act did something that I do not believe has ever been done before. It waived the need for people over the age of 70 1/2 to take their Required Minimum Distributions (RMDs).

The IRS uses the previous year's closing balance, 12/31, to calculate the next year's RMDs. Because the 12/31 balances are likely to be significantly higher than current values because both stocks and bonds declined in tandem, the IRS seems to have felt it was unfair to give Americans the double whammy of withdrawing money in depleted accounts and leaving them with an inflated tax bill.

In any case, if you do not absolutely need to take your 2020 RMD, you should very carefully consider foregoing it and starting again in 2021. If you have already taken some or all of your 2020 RMD and it is within 60 days of that withdrawal, you can potentially redeposit that back into your IRA.

The bottom line is that if you have any questions or want to discuss further, please let me know!

Finally, I am hearing from lots of people regarding refinancing their mortgages because they see short-term interest rates. Caveat emptor. Refinancer beware! Because of the stress in the financial system mortgage rates have actually risen over the past few weeks with the popular 30-year fixed around 4%. Given where the 10-year treasury note is, one would expect the 30-year fixed to be well under 3%. Banks simply have no interest in lending money for that long of a period at such low rates. They are now padding their profit margins on mortgages since many mortgages will be in forbearance or outright default.

Be careful taking out a mortgage or refinancing. Check out the 20 and 15-year fixed rate mortgages and even there, rates are a little bloated. I am happy to lend an impartial eye if you want to run the numbers you are receiving by me. I can also give you the names of some experienced and reputable mortgage professionals. Just know that you need not be in a hurry.

Upcoming Appearances

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Yahoo Finance's On The Move -April 16th at Noon

Fox Business' Making Money - April 21st from 2:00pm to 2:30pm

Yahoo Finance's On The Move -April 29th at 10:20am

Yahoo Finance's The First Trade - May 4th at 9:00am and 9:20am to 9:40am

Yahoo Finance's YFi PM - May 11th at 2:00pm

TD Ameritrade's Network - May 13th at 1:10pm

You can view most of the past segments by clicking below.

Media Appearances

(http://www.investfortomorrow.com/InMedia.asp)
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Investment Quotes/Adages To Live By

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"In God we trust, all others bring data."
- W. Edwards Deming

"The only easy day was yesterday."

- The U.S. Marines

"When in doubt, get out!"

"If it's obvious, it's obviously wrong."
-Joe Granville

"It's ok to be wrong, but it's not ok to stay wrong."

"This time is different."

"The markets require the patience of a dozen men."
-Robert Rhea

"Luck is the residue of effort."

"The most bullish thing a market can do is go up in the face of bad news."

"The most bearish thing a market can do is go down in the face of good news."

"The market can stay irrational longer than you can stay solvent."
-John Maynard Keynes

"Government is best which governs least" - Thomas Jefferson

Inflation is the one form of taxation that can be imposed without legislation.
-Milton Friedman

"You cannot legislate the poor into freedom by legislating the wealthy out of freedom. What one person receives without working for, another person must work for without receiving. The government cannot give to anybody anything that the government does not first take from somebody else. When half of the people get the idea that they do not have to work because the other half is going to take care of them, and when the other half gets the idea that it does no good to work because somebody else is going to get what they work for,that my dear friend, is about the end of any nation. You cannot multiply wealth by dividing it." - Dr. Adrian Rogers, 1984

"Bear markets seem to be divided into three phases: the first being the abandonment of hopes upon which the final uprush of the preceding bull market was predicted; the second, the reflection of decreased earnings power and reduction of dividends, and the third representing distressed liquidation of securities which must be sold to meet living expenses. Each of these phases seems to be divided by a secondary reaction which is often erroneously assumed to be the beginning of a bull market."
- Robert Rhea
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"Free enterprise is a rough and competitive game. Nobody too big to fail. Nobody too small to succeed. It is a hell of a lot better than government control." - Ronald Reagan via Dan Kennedy

"A government big enough to give you everything you want is big enough to take everything you have." - Gerald Ford via Dan Kennedy

"The problem with socialism is that, sooner or later, you run out of other people's money." - Margaret Thatcher

"Diversification alone is no longer sufficient to temper risk... You need something more to manage risk well."
- Mohamed El-Erian

"A little bit at a time adds up to a lot in no time"

To Your Financial Success,

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