



One of the interesting things I get to do when I attend industry conferences is the ability to listen to some dynamic speakers. This past week I had a chance to see futurist Michael Tchong, CEO of Ubercool, LLC and author of a book called "Ubertrends" speak about the ever-increasing pace of technological innovation and expansion and how it effects our everyday lives.

We have no farther to look than last week's correction to see how technology impacted the market's behavior and each of us as investors. Social media and instant access of "to the minute" news created an environment of concern that quickly evolved into fear, as reports of the coronavirus increased across various locations. That fear created some reactive selling of riskier assets by individual investors which then triggered another piece of market-driving technology, program trading.

In the last 31 years the average correction, defined as a 10 + % decline, has taken 66.9 days to get from peak to trough. This correction took 6 days and is now the fastest on record. Why so fast?

It is estimated that 90 % of institutional futures trades and 80 % of institutional common stock trades are performed by computers, each with their own set of algorithmic parameters of when to buy and when to sell. These trading programs are automatic, are preset and lack the natural time delay of the human decisionmaking process. The trigger hits, the trade is done.

As each program has its own formula for what it needs to have happen before being triggered, we are now finding that this increased use of tech in trading is causing declines to occur more rapidly as one program sells, triggering another program to sell, which triggers another and so on. This creates a cascading effect to the sell-off (which is also true of rallies, as program buying triggers more buying).

So where there are legitimate concerns about the potential economic impact of a global virus, especially when viewed in the light of China's containment efforts and its effects on the global supply chain, the reality of how deep that impact is won't be known until next quarter. The natural reaction to this is by many investors is to hedge, but that would probably not have resulted in as quick a decline in the past. The hedging itself may have ultimately created a correctional period as more and more news came out and more hedging was done, but the speed at which this decline occurred, in our opinion, was more about computer trading than human investors making decisions.

What does this mean for the weeks to come? Will individual investors, unsettled by the market's rapid decline and the expanding news of the virus spread, react with a need to sell? Maybe. Time will tell. Is there more program trading to live through? Our feeling is we have a higher probability of seeing buy side program trading being triggered, now that the market is past correction levels and flirting with bear market levels. But again, time will tell.

All of this said, with valuations on the high end of historical norms we, as a firm, have been hedging for a while now, systematically reducing stock exposure and keeping clients broadly diversified. Whether the market has now properly priced earnings for 2020 will become better known as those earnings are reported. But as longterm investors we need to stay focused on fundamentals, even as algorithms do their technical trading. Are we in a recession or should we expect one? That does not look likely for 2020. Will this virus effect economic and earnings growth? Probably and we have already seen GDP

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estimates lowered. Does access to 2 liquidity remain in place? Yes, interest rates are low and Fed, among other central banks, signaled on Friday they may step in to lower them further in support of the markets and the economy. The bond market is now pricing in 2-3 cuts in total for 2020. Will volatility continue? Probably, as markets perhaps rebound a bit (on technical trading) or sell off again (on news of new cases, in new places, keeps coming in) so the gyrations could be meaningful.

But in the face of all of these factors know that we have managed your assets based on your plan and have sought to mitigate the risk exposure over the course of the past couple years. We remain vigilant in our efforts to work through this kind of market period as we have in the past, but should you have any questions or feel the need to talk, please reach out to either me or Julia and we will walk through it all with you.

Take Care

Steven B. Girard