



“Quotes!”

2/26/20 Previous Close: DJIA 26,958; S&P 500 3116

From 1974-1984, the TV sitcom *Happy Days* provided great laughter and memorable quotes to many of us. A standout quote was Fonzie's inability to admit when he was “imperfect.” I can still hear him saying “I was wroooooo, wroooo” - he just couldn't bring himself to say he was wrong. When I look back at my market letter dated 2/19/19, I'm actually glad to say I was wrong when I suggested the stock market “had a chance to gain 15 - 20%” in 2019. The DJIA increased 25% while the S&P 500 was ahead 31%. That's the way I prefer to be wrong!

As I look into 2020, several other quotes come to mind:

1) “*What goes up must come down*” is a line I hear often from investors who are convinced that the market must fall (a lot) just because it gained so much last year. Consider this: The day I began advising clients on investments (9/19/86), the DJIA stood at 1759. Over these past 33+ years, yes, there have been many ups and downs but now the DJIA stands @ 26,958. There have certainly been peaks and valleys along the way, but I can't conceive of it ever going back to 1759!

2) “*(It's) the economy, stupid!*” This famous quote was uttered in 1992 by Bill Clinton's election campaign strategist James Carville as he explained the importance of the economy on so many things in life. This quote is pertinent because whether or not the US enters a recession is a key determinate for the direction of the markets - as you'll see in my projections below.

3) “*Don't let your politics get in the way of your portfolio.*” This is an exceptionally timely quote in this election year. Politics often incite our emotions. One major lesson I've learned since 1986 is that emotions are an investor's worst enemy. Emotions do create “swings” in the stock market, but in the long run James Carville was right.

So, how about 2020? With my usual caveat that these projections are “etched in sand” ...

- 1) The U.S. continues to avoid a recession in 2020.
- 2) Stocks will outperform bonds and cash.
- 3) I think the S&P 500 has a chance to gain 8-10% sometime in 2020.
- 4) The stock market will be more volatile than in 2019 when there was not at least one 10+% pullback (another projection I got wrong). I suspect we will see at least one correction of greater than 10% - but I have no idea when or from what level. Therefore, embrace my often-used quote: “*Investors must always be prepared - financially, mentally and emotionally - for a 10% correction at any time.*”

And what “Herb Letter” would be complete without quoting **Herb's Three Rules for Equity Investing** – *“Own quality, be diversified, invest in patience.”*

Happy 2020!

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