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The last half-year has demonstrated the day-to-day inscrutability of the financial markets, and with it the impossibility of predicting them. Suppose that last year on September 18 you had the misfortune of bumping your head and, in Rip Van Winkle fashion, fell into an unconscious slumber that lasted exactly seven months. On the day of your injury, the S&P 500 closed at 2904. On April 18, seven months later, that same broad-based index of U.S. stocks closed at 2905. Upon awakening from that long nap, your portfolio would likely have been the least of your concerns, but after finally getting around to checking your investments you might have exclaimed, "Why, the stock market has been incredibly dull!" Needless to say, you would have been wrong.

The stock market has been anything but dull over the last seven months, even though the net market change was just positive by one point. In between those dates, the S&P 500 fell 19.8% to its low close of 2351 on Christmas Eve, after which it rose 23.6% to its close on April 18 (for a net gain of 0.025%, 1.19% including dividends).

Without perfect clairvoyance, what should an investor have done? Before I answer that question, I can tell you what lots of investors were actually doing, which was selling much more than they were buying during the fourth quarter, reaching a crescendo of panic-selling in the week before Christmas. Why? I was trying to figure that out at the time and, as I indicated in my January letter, many were fearful of a return to the recession and bear market of 2008. As I noted then, a recession not only didn't seem likely to us anytime soon, but even if one were to appear, it would most likely be much milder than the 2008 version.

Back to late December: after the sellers had exhausted themselves and with prices marked down about 20% (who doesn't love a sale?), buyers came in and scooped up the bargains. In fact, with ample evidence that no recession was likely in the near term, buyers bid prices back up to where they were just a few months earlier. I should point out that no investor knows what tomorrow will bring. We have lots of knowledge, just nothing about the future. But we do know a lot about the past, and history tells us that sometimes a little bit of negative news can create a great big selling panic, which is what we saw in late 2018.

So, I will ask again, what should an investor have done? A very good answer is *nothing at all*. A correctly positioned portfolio made up of stakes in outstanding businesses doesn't need to be disturbed because other people are panicking. If their good management is intact, sound balance sheets are maintained, earnings and cash flows are solid, and dividends are paid on time, then there is no need to do anything.

Another good answer: take advantage of panics by acquiring shares of great companies that others are eager to unload. This is something that we love to do but is hard for most investors because a selling panic spurs its own "herd mentality" that causes people to sell simply because they are afraid of what they don't know. That's a bad reason to sell, just like it's a bad reason to buy because others are doing so. You don't need to know the future, but you do need to know what you own (or what you want to own), whether it's a stock, a bond, or a fund.

We don't know what tomorrow holds, but we plan to bring our knowledge of the past, of human nature, and of the investments we own.

We appreciate your confidence in us.

Gratefully,

Mark A. Keller, CFA
CEO and Chief Investment Officer

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One North Brentwood Boulevard | Suite 850 | St. Louis, MO 63105 | benjaminfedwards.com | Member SIPC

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