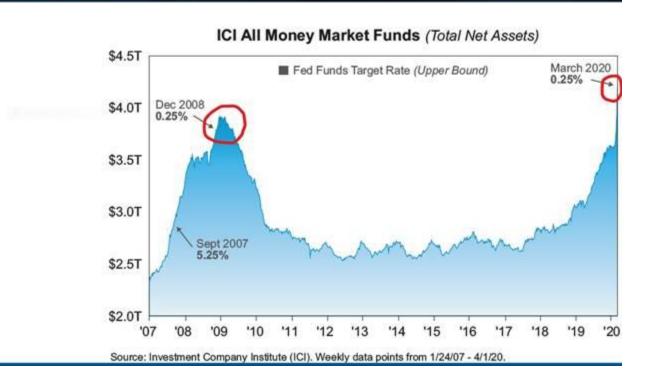
The Outlook: April 6, 2020

The fuzzy meanings of "Surging Markets!" and "Surging Money Market Funds!"

Like last week's "Oil Surges 25%!", today's "Market Surges 1600 Points!" means nothing about tomorrow, and probably not too much about next week or month. The market's chief Nightmare—the "Global Virus Shutdowns"—is still, in fact, a "real" nightmare rather than a bad dream. It will end, but the market can only guess, like all of us, at exactly when—hence exactly how deep and broad the economic damage will be, and how long it will take to get back to something like normal. But just like "Oil Surges 25%!", today's "1600 Points!" is genuinely valuable for one main reason: it shows us how the market will act, eventually, when "economic normalcy" becomes visible out there on the distant horizon.

Meanwhile along came an interesting chart, a few days ago, from economist Brian Wesbury's company.

Money Market Fund Assets Are Surging



We've seen a lot of "Inconceivable!" things, this past couple of months, but let's use Mr. Vizzini's word from *The Princess Bride* once more, for this picture. The right-hand red circle is last week, when moneymarket-fund assets shot to \$4.2 trillion, past their last peak of \$3.9 trillion (left circle) at the end of 2008. The end of 2008, of course, was the last time the investment world was this terrified. The world banking system looked like toast, as did the world credit market as a whole, as did the stock market and the world economy . . . and we were assured by countless eminent people that we hadn't seen anything, yet. The details are different but the sentiment is the same, today, isn't it?

Furthermore, stock and bond mutual funds saw "net outflows" of \$28 billion and \$34 billion, respectively, over the last quarter. We needn't dig back to see those numbers for 2008—they were certainly just as shocking.

There is a paradox in all this, at least to minds as limited as those at Outlook Capital Management. Through the many panics, crises and market meltdowns of the past 43 years, the investment world's eminent voices have always said the same thing about this kind of chart: basically, "Look at all those people selling, and getting into cash until the smoke clears!" On the surface it looks like an obvious thing to say. There we were in 2008, and here we are in 2020, with an appalling crisis staring us in the face and either no cure in sight (2008) or a highly uncertain cure with respect to when it may choose to arrive (2020.) And the eminent voices always said—when the smoke cleared and it looked safe—that the "inconceivable" spike in cash reserves was just another historical example of fear's power to make people sell at the bottom, doing the very opposite of what was good for them.

It's a nice explanation and it does fit the way we know, at Outlook, that fear always tempts investors to sell. But the paradox is this: "OK, \$62 billion of stocks and bonds were sold recently. So \$62 billion of cash showed up in those sellers' money-market-fund positions . . . But who was buying?" Because, of course, for all the sellers of stocks and bonds there must be buyers, whose personal balance sheets must fall by \$62 billion in uninvested cash, to let that cash head over to the sellers' balance sheets.

The only way out of this paradox which Outlook has ever thunk up is for the cash to have been printed by the Federal Reserve, which of course is in the act of printing 2 trillion dollars of cash, or so, to pay for the \$2 Trillion Stimulus Program. Only a central bank can make cash appear out of thin air; everyone else has to sell something to a buyer, in order to come up with it. But the \$4.2 trillion money-fund number above appeared as of March 27—well before the Fed's cash machines could have gotten rolling very fast.

Let us leave our paradox at that, with no explanation or a fuzzy one at best. Paradoxes are more enjoyable that way. But even though this paradox muddies up the usual explanation—"They're all selling at the bottom again!"—the principle behind that explanation still works very well, for real investors. No matter what we actually do—and in Outlook's experience, the vast majority of investors do <u>not</u> sell at the bottom—we sure do <u>feel</u> like doing just that. Fearful events, the market and the media work together to help us feel that way. But we don't sell. We hang in there, with an occasional lift of spirits from "1600 Points Up!" and we're paid very well for doing so.

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