# <u>The Outlook:  Feb. 28, 2020</u>

## ***But where are the zombies?***

As we watch our sacred fortunes melt down into puddles of worthless slush, it's easy to forget our senses of humor—but times like these are when we need them. Hence our appreciation of the headline on one of the thousand articles about the market, this morning, by analyst David Lerner:

***"Coronavirus Fear at Zombie Apocalypse Levels . . . but No Zombies! Short the VIX!"***

Mr. Lerner's headline was downright funny . . . but also pointed right to the heart of the Big Question today, as the market gives the media's headline-writers a feast of ways to get our horrified attention. That Big Question is: "Are there zombies, or aren't there zombies?" In other words, "Is the "coronavirus pandemic" a <u>real</u> wreck-the-global-economy bomb about to explode; or is "coronavirus pandemic" one of the market's normal gross exaggerations?

It's the usual gross exaggeration, of course.

Whenever somebody we know gives us really astonishing news of some kind—either wonderful or terrible—the first reaction for most of us is to "consider the source." What kind of person is giving us this revelation, and what do we know about their personality and past behavior? What happens when we apply that same, quick test to this week's "Zombie Apocalypse!" news, courtesy of a few thousand plunging points from the market? What kind of person is "the market" and what do we know about its personality and past behavior?

Hmm. Outlook's clients and friends know just where we're going. The stock market is a wonderful thing. It expresses the incredible power of free markets, competition, capitalism and management accountability to create galactic-scale levels of wealth and widespread well-being. But this wonderful thing comes with a downside, as most wonderful things do. The main downside is the fact that speculators—a global multitude of them—absolutely rule short-term price movements. That would cancel out the "wonderful" side of this thing, except for another absolute truth about the market's "personality and past behavior": the speculators can and do ignore real-world facts, create and promote nightmares, and generally exaggerate, twist and distort the truth to such degrees that it's unrecognizable . . . but they can't keep it up. They can <u>never</u> keep it up. The truth about things always grabs them by the collar, so to speak, and waves a fistful of cash in their faces, saying "Do you want this? Or are you going to pass it up, and keep running around like Chicken Little?" The market's answer is always the same, eventually: it takes the money (buying everything it had been throwing away.) The only question we ever wonder about is, "When?"

Mr. Lerner's headline, up there, ended with a cryptic phrase (for normal people): "Short the VIX!" We might, if it weren't Friday afternoon, launch into an eye-glazing explanation of "the VIX," but let's not. The <u>meaning</u> of Mr. Lerner's headline was, "Get yourselves down to the casino—that is, the options, futures or other derivatives markets mostly designed for speculators—and gamble that the market will rocket up, pretty soon!" And that sentiment is worth a glance, because it will help us understand the market's nature a bit more deeply.

Mr. Lerner is absolutely a smart, well-informed, hard-working member of the investment world. The things he writes usually make plenty of sense, and his long experience and hard background work are usually obvious. At Outlook we follow a truly remarkable number of people who act in the market and write about it, who share Mr. Lerner's strengths. But one of the "truly remarkable" things about them is that even with all those strengths, they still make daily or weekly trips to "the casino" and gamble that something will rocket up or down, pretty soon. They seem to share a feeling that making a lot of money, fast, ought to be a just reward for their good qualities. It shines a light on something, doesn't it? The urge to "make a lot of money, fast" is so strong, for so many people, that it easily overrides all that experience, intelligence and good judgment. And of course it works in the opposite direction, too: the urge to "avoid losing a lot of money, fast" is so strong, for so many people, that it threatens to override the same impressive amounts of experience, intelligence and good judgment.

As one of Outlook's clients remarked very recently: "Losses of value," and "*permanent* losses of value" are two completely different things." "Losses of value" are frequent but temporary consequences of the nature of the market. "Permanent losses of value" only happen when, as Mr. Buffett says, "We let the market frighten us out of good positions."

Apart from his valuable remarks about the market, Mr. Lerner said something really profound, this morning, about the "coronavirus pandemic!" We haven't heard it from anyone else, including the CDC, WHO and countless medical and scientific experts since the Wuhan Virus nightmare showed up. He asked this question: "It was a long time—four to six weeks—between when the Virus began in early December and when China quarantined all those millions of people. Before the quarantine, thousands of Chinese traveled to the U.S. This virus has a 2-week incubation period, and it's been 12 weeks now. We should be in the middle of our own U.S. "pandemic" right now. Where is it?"

Like so much else in this Nightmare—and in all market nightmares—the answer is, "We don't know." When the market's speculating mob is roaring, any question whose temporary answer is "We don't know" is rock-solid evidence that the sky is not only in the act of falling, but is getting down to the impact zone. But it never is.


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