There's a Time to Buy and There's a Time to Sell

By David Walter *October 3, 2022*

Throughout late 2020 to early 2022, we kept advising about the need to raise cash in investor portfolios. The Federal Reserve's and foreign central banks' massive rounds of quantitative monetary easing since 2010 had created a bubble in the stock market and led to valuations that were unsustainable. Not only was the stock market in a bubble, so was the bond market.

The Fed continued its policy of monetary easing into early this year despite calls of alarm from many in the financial community. Those warned that the Fed was overdoing the easing and creating inflation as a result. Quantitative easing may not have been the only action that contributed to inflation; fiscal policies coming from the government in its aims to fight problems resulting from COVID have certainly contributed to the problem.

It is now late 2022, and as often occurs, the Fed and Jerome Powell are overdoing it, but this time with tightening. Based on history, the Fed will stop once there is another global or domestic crisis.

Market crashes are usually "credit events." That means they start with currency and bond markets. It appears that this happened in the past two weeks with the implosion of the English pound and the English gilt (i.e., bond) markets. The Bank of England had to intervene to prevent an all-encompassing market

crash that would have bankrupted some pension funds among numerous other financial institutions. Rebuilding confidence was of the utmost importance and they succeeded for the time being. Had the Bank not taken these actions, the fear would surely have spread to the rest of Europe and the United States.

The Russia/Ukraine war is not helping the situation in terms of confidence. No one knows what the long term will bring, but it appears that global macro events are coming to a head.

As I stated last week, buy when there's blood in the streets. It's hard to pin down exactly when the bottom will be, but it can vary based on one's investment goals. For those investors with a time horizon of at least five years, it is now time to start buying high quality companies, especially many "new era" stocks that have been destroyed over the last 18 months. These are concentrated in the cloud, artificial intelligence, and the like. Many of these are down 80-90% from their peaks. It may not be the exact bottom, and there's still more risk to the downside in the overall market, but when high quality stocks are down this much then there's very little further downside risk in them. Any further declines in markets from here are reflecting what's happening to the Megacap technology and other large companies. Their capitalizations are so large that their impact on the downside is exactly the same as their impact was on the upside, just in reverse.