To say that there have been significant moves in markets and societies in the recent fortnight would be one of the great understatements. Understandably, most people are disoriented and scrambling to keep businesses and family structures afloat financially, logistically and emotionally. Ironically, although the news and financial media are continuously clamouring for more of our attention, it is now more appropriate than ever to take the time to reflect more substantially and dispassionately on where we are and why we are where we are.

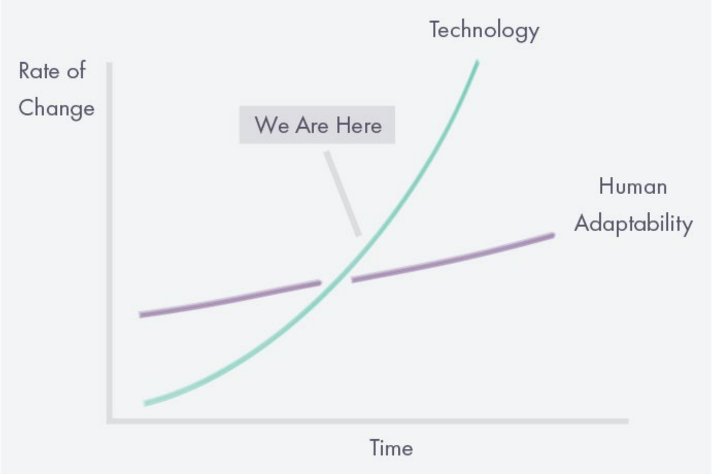
Firstly, the speed of the recent market moves:

Everyone in the markets knows that prices move faster than information. In the digital era, information travels faster and wider than ever before. It follows therefore, that if information is now travelling faster, prices and markets should have accelerated similarly.

Simultaneously, more people than ever before have direct access to the trading markets from their offices, homes or from their mobile phones or tablets. It should therefore be of little surprise that price movement has accelerated and that the current bear market has played out faster than we are accustomed.

The oversimplified graph bellow illustrates that we are now struggling to come to grips with the rate of technological change.

Human adaptability vs technology innovation



Source: Medium.com

Secondly, the quantum of the recent market moves:

The table below lists the bear markets on the Johannesburg Stock Exchange (JSE) since 1960 (per the conventional bear market definition of a fall of -20% over 2 months).

The average bear market over the last 60 years has been a fall of 40% over 14 months. The recent move, measured from its high on 24th November 2017 to the recent low before its bounce on 23rd March 2020, has been (39%). This is right on target for a completely-in-spec bear market.

Bear markets on the JSE since 1960

High Date	High Value	Low Date	Low Value	Duration (months)	% Decline
1960-11-30	79	1961-04-30	61	5	(23%)
1969-04-30	343	1971-10-31	129	30	(62%)
1974-03-31	358	1976-08-31	174	29	(51%)
1980-10-31	848	1982-06-30	452	20	(47%)
1987-08-31	2,704	1988-02-29	1,518	6	(44%)
1990-03-31	3,257	1991-01-31	2,556	10	(22%)
1998-04-30	8,236	1998-08-31	4,923	4	(40%)
2002-05-24	11,320	2003-04-30	6,763	11	(40%)
2007-10-12	28,169	2008-01-25	21,761	4	(23%)
2008-05-23	31,393	2008-11-21	15,853	6	(50%)
2017-11-24	55,192	2020-03-19	33,407	28	(39%)

Source: Coherent Capital Management (Pty) Ltd & Bloomberg

We should therefore recognise that, if we are alarmed by the apparent unmanageability of the recent bear market, we are simply getting old and our reaction time is now too slow. We need to adapt, or we will be superseded by the next generation or by technology - which may very well be the same thing.

What those of us with experience should be able to contribute is the wisdom and judgement earned by having seen similar events before, when they unfolded more slowly (mostly) and we were better able to learn the lessons available.

Thirdly, on specific market behaviour:

We all know that price discovery of financial assets continually attempts to discount the present value of future cash flows. This is the chief reason for the current price volatility in the financial markets: the future is extremely difficult to predict at the best of times, and so are future cash flows. In the current environment of flight-to-safety, de-leveraging and the overnight grinding to a halt of both the global supply chain and demand, the future cash flows are nigh invisible. Unsurprisingly, investors are demanding a greater margin of safety in the price that they pay for investments now.

In contrast, commodity prices reflect *current demand and supply* rather than discounting future expectations. Unsurprisingly, therefore, those commodities sensitive to economic growth, *e.g.* copper and oil, have been falling. Meanwhile, the safe haven commodities have rallied *e.g.* (USA) government bonds and gold. As always, it has not been plain sailing. Investors in both of these havens have been subject to bouts of volatility due to the settlement bottlenecks across the board. There has been a mad scramble for US Dollars, creating a liquidity squeeze in money market funds. The grounding of airlines also means that there are no flights to deliver gold for derivative deliveries. Available oil storage is almost full and oil producers are being asked to voluntarily reduce production.

Finally, on our own behaviour:

My previous Weekly View of 11 December 2019 (“If you can keep your head while all about you are losing theirs...”) is more relevant now than it was then:

“However, we should not fool ourselves: no-one knew then, no-one knows now, and no-one can predict tomorrow.

“We must therefore recognise our own fallibility and our biases - and those of others. The only thing that we, as investors, can control is our *own behaviour* - not the behaviour of others nor prices. In managing other peoples’ money, we must therefore:

- exercise prudent risk management
- implement appropriate risk budgeting and position sizing for our portfolios, and
- have the discipline to execute sell-stops and the fortitude to exercise buy-stops when they are triggered.

Then “Yours is the Earth and everything that’s in it, and—which is more—you’ll be a Man, my son!”

On the virus:

I am not going to comment on the coronavirus. There is more than enough news, analysis and statistics available from people far more qualified than I am to do so.

As far as the virus affects the markets, I’m sticking to “prices move faster than information” and am managing price risk in my portfolios.

Andy Pfaff
Head of Commodities

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