The Corona Virus has shaken world markets and it is likely that it will continue to do so. The natural response to such events is to sell everything and wait for it to blow over. However, it is very difficult to do this well.

It is difficult because it requires detailed predictions. In order to decide whether to buy or sell today, we have to predict whether the virus will fizzle out or turn into a pandemic, whether the virus will inflict enough damage to tip the world economy into recession, what the central banks will do and whether it will be effective, how people will feel about all that, and countless other factors that may determine the economic outcome.

Based on the same facts but different forecasts, one person may decide that the recent declines are a buying opportunity, while another person may think this is the beginning of the end. To time markets well, we must make many difficult forecasts and we need to be right about all of them. This is why market timing is difficult.

Pivot Point Advisors relies on investment strategies that do not require detailed short-term forecasts. Instead, we use robust facts like the existence of an economic cycle. Based on data from the last 100 years, these cycles last on average about ten years and produce an 8-9% annualized return.

Assuming that the nature of economic cycles does not change fundamentally, it is straight forward to design an investment strategy with a high probability of success: Keep the money you plan to withdraw from your investments over the next few years in safe investments and expose the rest to the economic cycle by investing in higher risk and higher average return instruments. The three-year cushion gives the investor time to let the other investments recover from downturns to complete an economic cycle with a high probability of capturing something close to the 8-9% average return.

Compare that to timing the markets. There are about 2500 trading days in a decade. If you make good forecasts on most of these 2500 days, you will realize spectacular returns over an economic cycle. But most of us will make a significant number of wrong forecasts, which can easily lead to negative returns.

The investment outcomes for market timers ranges from very high gains to very steep losses over an economic cycle. The outcomes from our long-term strategy tend to be in the vicinity of the average return of the economic cycle. Our strategy delivers modest returns with a high probability. Market timing produces very high returns with a small probability, and losses with a high probability.

Given our long economic expansion phase, it is virtually certain that we will experience a recession in the foreseeable future. Maybe the virus will trigger the next recession, but many other problems failed to break the bull market. Nevertheless, the bull market will eventually break. We just don't know when. If you use our allocation strategy you don't have to.

Please let us know if you have questions.

Pivot Point Advisors