HAAS
Capital Management LLC

Wild Markets as a Result of the Unknown

As I mentioned in my last letter, this quarter is the first quarter to omit performance reporting. Instead, I will review the performance of the market and share my thoughts about where we might go from here.

As I'm sure you've already heard, the previous quarter was awful. The one bright spot was bonds, which had slightly positive returns. This is why we hold bonds and other fixed income investments. In times of strong markets bonds act as a drag on our returns. But in times like these they are a welcome cushion against losses. Here's a summary of quarterly returns:

Market Sector	Return	Benchmark
Total U.S. Stocks	-19.4%	SPY (S&P 500)
Small U.S. Stocks	-30.6%	IWM
U.S. Value Stocks	-35.1%	IJJ
Foreign Stocks	-23.4%	VEU
Bonds	3.1%	AGG

As you know, the Value Strategy invests more in small stocks and value stocks than the total market. Therefore, I was very concerned when I saw small stock and value stock benchmarks declining much more sharply than the total market. I am pleased to report that although the Value Strategy declined more than the total market, it did substantially better than the small stock and value stock benchmarks. I believe that this is the result of choosing more defensive and larger stocks over the last several quarters. I do still expect small stocks and value stocks to outperform over the long term, but it is not yet the right time to shift from a defensive position.

Clients holding bonds in their portfolio will notice that their bond allocation is now significantly above the target allocation. This is a result of the decline in stocks and the slight gain in bonds. It may take as long as 15 months for the portfolio to be rebalanced, depending on market movements. In the meantime, clients with bonds will have a slightly more defensive allocation than the target. I believe this is appropriate.

Expectations for the Next Quarter

It's always difficult to predict even three months ahead, but it's nearly impossible under these circumstances. So the only safe prediction is that markets will continue to be a bit wild. In a few weeks corporate "earnings season" will be in full swing. We'll find out how sales and profits were impacted in the last quarter and, more importantly, what management expectations are for the next quarter. The market will react to corporate expectations in ways we can't predict. What's clear is that this decline is different than the last few we've seen. Since the bull market began the larger market declines have been a result of what the market thinks might happen - interest rates, the trade war, etc. This time the market is declining based on what is actually happening. Therefore, I don't expect a fast rebound.

Rob Haas April 2, 2020