

KEATING INVESTMENT COUNSELORS, INC.

REGISTERED INVESTMENT ADVISOR FOR INDIVIDUALS, RETIREMENT PLANS, TRUSTS AND FOUNDATIONS

Market Update February 28, 2020

Dear Clients,

The market has taken a sharp downturn this week following the new all-time highs on February 19th. Over the past few days, the market has fallen over 10%, making it the fastest “correction” in stock market history. The market movements have been breathtaking and relentless with no ability to “get out of the way.” The majority of the media is blaming this correction on the rapidly spreading coronavirus, COVID-19. While the virus is certainly scary and will negatively impact the economy, the rapid fall in the market is really a reflection of the fragile market structure itself. As we have been warning, stocks were surging upwards in the face of growing risks. This created a situation where investor perceptions could change violently which we are now experiencing.

Fortunately, we’ve been preparing for rougher waters for the past two years. As you should know, we’ve increased cash/U.S. Treasury holdings to sizable levels in client accounts. This allocation will buttress market declines while funding any withdrawal needs. Importantly, this cash reserve also positions portfolios to pick-up any great bargains. We are closely watching the energy sector where many quality companies are trading below levels hit during the bottom of the financial crisis in 2008/09. In addition to our allocation to U.S. Treasuries, we have also been aggressively trimming stocks that were getting caught up in the surging market euphoria and shifting the proceeds to both defensive companies and stocks that were trading for much more reasonable valuations. While these changes ruffled some feathers due to the tax consequences, we felt it was very important and would better position portfolios for future long-term gains.

In summary, we do not know where the market will go from here. By the time you receive this letter in early March, the market may be sharply rebounding, and calm could be restored. More likely, there are aggressively managed hedge funds that have “blown up” during these rapid market movements and their assets will be slowly sold over the next few weeks. The unwinding of these trading books will put consistent downward pressure on the market which will be emotionally draining for those watching the daily market movements. The purpose of this letter is to remind clients that we have been doing a lot of preparing over the past two years for a scary event such as this. It’s a natural human reaction to want to “do something”, but we are already well positioned. We also wanted to point out that after this week’s decline, the market is roughly back to where it was in 2018. Despite the traumatic week, investors have still reaped substantial gains over the past decade.

Many clients likely have frayed nerves if they have been paying close attention to the market. We encourage clients to call to discuss their specific portfolios if needed. We stand ready to answer any questions and discuss our strategy going forward.

Truly yours,

Richard T. Keating, CFA
President