

Market Watch with RMH, “The Doolittle Moment”

April 08, 2020

From our March 23, 2020 RMH Market Watch where we discussed thoughts with a COVID-19 update. I thought the best way to outline the steps needed was the formula below:

Mp + Fp + Medical + Es + Cs + Dm = We Get Out of This

We have now added our last symbol to the equation and no, **Dm** does not stand for Davis Monthan Air base. In every correction of note, there is a moment when we can look back and say, that was a turning point. **Cumberland Advisors** put out this research yesterday and it is very timely in our opinion.

“... The Japanese attack on Pearl Harbor on December 7, 1941, accelerated the WW2 bear market to the April 1942 bottom. Pearl Harbor made US officially at war.

April 1942 is a critical month and year. The United States was able to drop a bomb on Tokyo, thanks to a US forces team led by pilot Jimmy Doolittle, a famous military test pilot, civilian aviator, and aeronautical engineer before the war. That effort and the ensuing struggle of the 16 crash-landed B25 bomber crews to survive and escape from China are memorialized in the 1943 book *Thirty Seconds over Tokyo*, by Captain Ted W. Lawson, a pilot on the mission (<https://www.amazon.com/dp/B005CWHKNQ/>) and in the eponymous 1944 film based on the book (https://en.wikipedia.org/wiki/Thirty_Seconds_Over_Tokyo). The news of the morale-lifting Doolittle raid brought a sudden halt to the WW2 bear market.

Why the abrupt shift in sentiment?

For four years, the news had been terrible and steadily worsening. Americans were living under severe restrictions and with considerable fear. Public sentiment dipped

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to pessimistic extremes. We conclude this from historical accounts; we didn't have the sentiment measurement tools then that we have now.

The Doolittle raid itself didn't really do much physical damage or kill many people, but it established that the Japanese heartland was vulnerable to American air attack, and it served as a retaliation for the attack on Pearl Harbor four months earlier. Thus, the primary result was a psychological shift worldwide. In the US, Americans suddenly realized that the outcome of the war was not inevitable doom or even a protracted stalemate. In other Allied nations the message was the same. Among the Axis powers the opposite reaction occurred: For the first time their vulnerability was made clear.

Now, in the intensifying war against the coronavirus, sentiment is once again extremely negative. All modern-day measures affirm the extreme. Fear of death is the most powerful human emotional state.

The engines of this war against the virus are in the hands of the medical professionals and the scientists. And they are fully engaged, notwithstanding all the political errors we see at various levels of our governments. In WW2 there were many errors, and now in World War Corona (WWC) there are many serious mistakes, too.

That said, we believe the United States and the world now needs a "Doolittle moment". It may come in the form of a treatment or protocol that is decisively effective and not merely conjectural. And it will eventually come with a vaccine. As soon as the population can see and believe that the fear of death and sickness will be diminished or removed, sentiment can and will abruptly change.

With that shift, a durable bull market for stocks can occur. We believe it will come. We do not yet know if the S&P low under 2200 was an interim bottom or a "Doolittle" bottom.

Furthermore, we believe that the post-COVID-19 pent-up demand will launch an intense economic recovery. But we cannot get there without removing the fear of illness and death. We cannot get there without credible methods of treatment.

We cannot get there without thorough further research into the disease; treatments for it; a vaccine; and, critically, tests for the antibodies that can protect us from COVID-19 in the future.

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But we can reach those goals rapidly, as soon as the goals are seen as both, credible and achievable. We see the advancement in the curated daily reports.

Our forecast for the eventual economic recovery is that it will be U-shaped. We do not see an L with a three- or four-year persistently down Great Depression like period. Our forecast for the stock market itself is more like a V. We only need the Doolittle moment to get there...”

What steps are we taking at RMH?

- We are looking at the portfolios and rebalancing where necessary.
- We are taking advantage of tax loss selling to lower future capital gains
- We are looking at what insiders are doing with some of the stocks we have purchased.
- We are talking with portfolio managers on a one to one basis and participating in conference calls.

Sources include the following:

- o Cumberland Advisors April 7, 2020, The Doolittle Moment

We thank you all for taking the time to read “Market Watch.” It is meant as an educational piece on the always evolving markets. It is something we plan on providing every month, and your feedback is very important to us.

If there are ever any topics you wish us to explore, please let us know. *We are here to help and guide you through these times.*

On a personal note, RMH is now in the position to bring on new clients so please feel welcome to share this informational letter with whomever you wish. Our focus is on the customizable investment needs of individuals, families, and foundations. We enjoy working with our clients to better understand their goals, values, and passions for what is important in their lives.

In expanding our client base, we look forward to working with people who share these same desires.

Richard Munding, CFA