Buy Buy Baby

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Plain and simple, stocks are cheap. They're not the cheapest they've ever been, but they are far less expensive than they were in 2021 and earlier this summer. Profits are expected to be strong in 2024 and 2025, although a Black Swan event could trigger another short-term correction. While there's no guarantee buying stocks today at a forward price-to-earnings ratio of 17.9 will produce positive returns in the next 6, 12 or even 18 months, history proves prices will be higher in three to five years.

In 2008 and 2009, nearly every sector, industry and company were dirt cheap. The S&P 500 Index traded for less than 9 times forward earnings in February of 2009. We shouted from the housetops, "BUY STOCKS." Thank goodness most of our clients took the advice and didn't sell at the lows. The Corona-crash of 2020 presented a similar opportunity when the market traded for 11 times forward earnings. Investor sentiment follows the same predictable pattern each time markets correct. Investors feel exuberant at market highs, chasing new peaks in fear of missing out as their neighbors make more and more money each day. Inevitably, the top becomes a bubble and pops. Those same investors that chased the high reach a point of despair, selling their equities at the worst possible time, a market trough. Suddenly, markets start rebounding and recovering some losses. Those same folks that panicked, believe the recovery is a dead cat bounce and they'll have another chance to get back in at lower prices. Usually, they never do.

Buying at the top and selling at the bottom is a great way to lose a bunch of money. Buying low and selling high on the other hand, is much easier said than done. It requires fortitude, discipline and bravery to turn off the TV and go for a walk. Successful investors don't panic when the market is on sale, they buy more. The only place on earth where people want less of something when its on sale is the stock market. If Costco runs a 10% off deal, thousands start buying. When they run a 20% special, millions start buying. 50% off? Forget about it…it's pandemonium. If you treat the stock market like Costco, you'd be exuberant any time we wind up in a correction or recession.

The big difference between today and the corrections of 2020 and 2008, is that not every sector, industry, and company are worth buying. We've been urging selectivity amongst high quality companies that are consistently growing revenue and free cash flow over time. Becoming a good investor means remembering stocks are a claim on real assets, not just a ticker flying across the screen on CNBC. Stocks represent real ownership in operating businesses run by (mostly) brilliant management teams that produce real products and services for real customers. If those companies manage conservatively and avoid giant landmines, their companies create inordinate amounts of wealth for everyday Americans like us.

Wealth creation is relatively simple. Entrepreneurs, when incentivized by the rule of law and personal property rights, innovate new solutions to old problems. If you throw them in jail for speaking out against the empire, they stop innovating…surprise, surprise. If you shrink the size of government and let them keep what they create, they innovate more quickly. Innovation is indeed the lifeblood of capitalism and capitalism is the lifeblood of freedom. Make no mistake, democracy and free speech are directly tied to free markets. Censorship, bureaucracy and central planning, the hallmarks of Marxism and communism, always lead to economic collapse. And further, capital alone doesn't result in good ideas. Good ideas result in wealth creation, and over time, lift people out of abject poverty, reduce infant mortality, increase standards of living, and deliver better medical outcomes to the world.

You'll become a better investor the more deeply you understand the plight of the entrepreneur and the societal good innovation creates. The next time a correction happens, don't simply view it as red marks on your statement, rather extraordinary companies simply on sale, ripe for the buying.

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