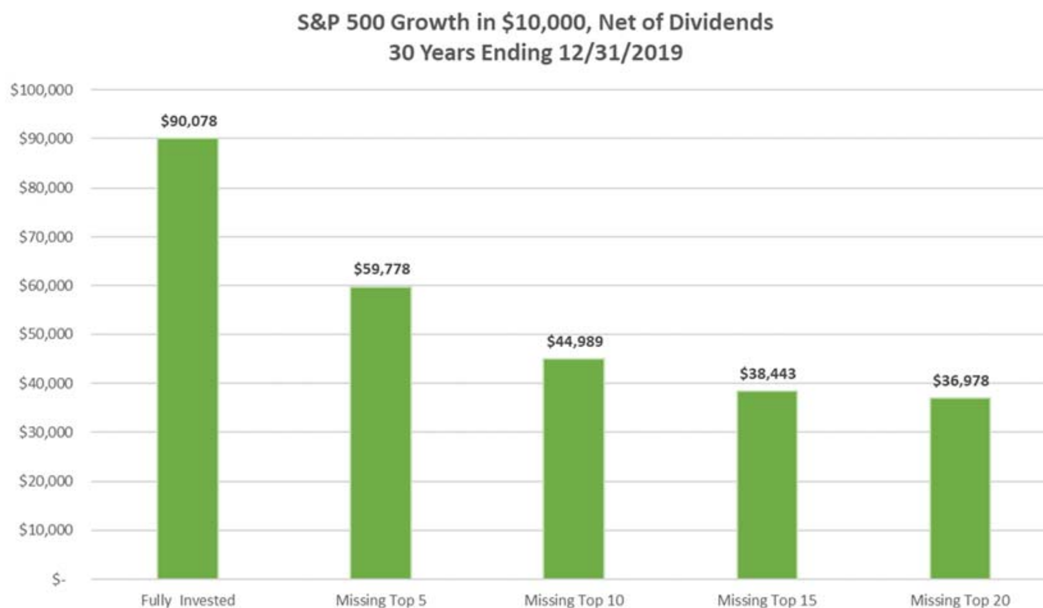
Dear Turtle Creek Client,

The dramatic sell-off in global investment assets that started in late February accelerated this week. Market behavior the last few weeks has truly been historic. Stock indices have posted intra-day swings that have only been witnessed during the Great Depression and the speed of the market sell-off has only surpassed by the October crash of 1987.

The initial estimates regarding the economic impact of the quickly spreading COVID-19 virus now appear overly optimistic. The increasingly harsh quarantine and distancing measures implemented by global governments to limit the spread of the virus almost guarantee a recession, the scope and duration of which is hard to handicap. The question at the top of mind of every investor is what to do during these tumultuous times.

Investment legend Jack Bogle once quipped that ‘when crises come along, the best rule you can follow is not “Don’t stand there, do something!” but “Don’t do something, stand there!” His core message is usually distilled into vague advice such as “Don’t Panic” or “Control your Emotions.” There is an empirical justification for his view, though. The longer-term market returns that entice us all to shoulder the risks of investing are heavily influenced by a relatively small number of outlier trading days. Remove one or a few of these and that long-term return changes significantly and for the worse. An investor who invested $10,000 in the S&P 500 30 years ago would have been rewarded with a nearly nine-fold return even before the compounding effect of dividends. That excellent outcome is cut in half if the investor opted out of the *best 10 days* of the market.



Source: Bloomberg

This observation would not be worth much if those best and worst days were random. They are not, however, as the best days of the market occur during the moments of extreme panic and usually very close to the worst trading days on record. Over the above-mentioned 30-year period, 7 of the 10 worst trading days took place within a 3-month period at the end of 2008. 6 of the 10 best trading days also took place in that same quarter. A failed attempt to actively time markets during this painful stretch significantly impaired the benefit of the long and serene stretch of market growth that followed the end of the credit crisis.

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10 Best and Worst S&P 500 Trading Days - 1990 to 2019

Date	Daily % Change	Date	Daily % Change
10/15/08	-9.0%	10/11/08	11.6%
11/29/08	-8.9%	10/28/08	10.8%
9/27/08	-8.8%	3/21/09	7.1%
10/9/08	-7.6%	11/13/08	6.9%
10/25/97	-6.9%	11/22/08	6.5%
8/29/98	-6.8%	3/10/09	6.4%
11/20/08	-6.7%	11/21/08	6.3%
8/6/11	-6.7%	7/24/02	5.7%
11/19/08	-6.1%	9/30/08	5.4%
10/22/08	-6.1%	7/27/02	5.4%

This is not to say an investor should do nothing. It is important to carefully scrutinize the financial strength of your investments. The economic stress that is building due to the government-enforced shutdown of many parts of the economy will cause real damage to companies that borrowed unwisely and no longer have the cash flow to weather this economic storm. Trading up in quality throughout the portfolio is a smart strategy at the moment as the very best businesses are suddenly trading at more attractive valuations.

You also can't lose sight of the longer-term return goals. Your cash and high-quality bonds provide incredible value at the moment in terms of portfolio stability but over the longer-term they offer very little return. Corporate profit and dividend yields handily beat the yields currently offered by short-term liquid assets such as cash and bonds

Finally, an investor should keep perspective regarding the recent wild swings in equity valuations. A stock's value should capture decades of future performance and a single year's earnings and cash flow should represent only a small percentage of a stock's overall value. As excellent companies decline 30 or even 40%, you should question if 40% of their future has indeed by impaired been the current economic crisis.

The lessons of history still indicate the best path forward is to stay the course with an investment plan designed to provide you adequate liquidity and cash support throughout this health crisis. If you are investing with any sort of time horizon, the chance that you impair long-term returns on your investments is greatest during these moments of heightened market instability. While we are emotionally wired to act during moments of stress, the best strategy remains to only act to ensure that you have adequately funded your near-term cash needs or to swap out truly imperiled investments for quality holdings that will provide a better mix of risk and return over longer cycles.

TURTLE CREEK MANAGEMENT, LLC
TURTLE CREEK TRUST COMPANY, LTA