

## The Irony of Today's Stock Market

By Ian McLean

It seems most people don't understand what is happening in the stock market these days. They are living something unprecedented and reading terrible news. They see the starkly bad economic numbers coming out. Around March 23, almost everyone was convinced the market was going to keep falling as the economic repercussions of the coronavirus pandemic would become more and more evident. However, as we now have seen, the market has rallied since March 23 and it is getting closer and closer to its all-time high from February.

How can this be? It just is. It is such a simple and obvious idea: if it was so easy to predict the stock market in the short term, everyone would be rich. This is a type of saying we relate to, is simple and we have all heard it applied to other subjects. Yet when it comes to the stock market, people think they are smarter than everyone else and they have the capacity to predict something that has all the complexity of millions of human brains put together making decisions and using tons of different data points.

Here is the irony: everyone is now convinced the market is acting extremely irrationally yet what if it was actually acting rational for once?

Markets should focus on the long term, not the short term. In the long run, most agree that companies will recover and thrive again one day. This "one day" probably occurs within 2 years according to most people. Some pessimists might think it will occur within 3 years but whichever the case, we are talking about the short to mid-term.

In other words, valuations should be based on the earnings of businesses in 5 to 10 years and the probability that these earnings will be met. Valuations should not give all the weight to the earnings in 1 year. Using this method of valuation and discounting with the lower interest rates of today, even when incorporating more uncertainty in future possibilities, a stock market 9% below its February peak could make sense.

To get to this conclusion, you must focus on the long term and we all know how hard that has been for the human brain historically. Maybe the collective stock market human brain is functioning well right now. Maybe it is focusing on the long term; after the end of this terrible pandemic.

The purpose of this article is not to state valuations make sense right now. It only states they might make sense relative to February valuations. If February valuations were high in your opinion, then they might still be high today. The purpose of this article is more about the power and rationality of focusing on the long term perspective.