CAPITAL INVESTMENT COUNSEL

The Columns

March 2025

Weatherwise, March is famous for in like a lion and out like a lamb. I'm hoping the market follows suit, and history indicates this might potentially happen. Last month we talked about the two big "T's" hanging over the market: Trump and Tariffs and those two certainly shaped the markets' recent behavior. It's been a whirlwind. The NASDAQ had its worst decline since the dark days of summer in 2022, so let's try and put it into perspective.

The Nasdaq took a 13% hit over the last five weeks, sliding from its December 16 peak to 17,468 on March 10. Ugly? Sure. But the good news is we've been here before as stocks behaved similarly three years ago. Back then, the Nasdaq dropped 17% from its April 2022 level before bouncing in mid-June.

That June 2022 bounce packed a punch as the NASDAQ launched 20% before fading again. It retested those June 2022 lows in early October before rampaging 45% higher into July 2023. Bottom line: This recent pullback stings, but maybe we need to look at it as an opportunity.

Yes, we may have more turbulence ahead, but I feel our current economy is currently in solid shape plus, don't forget what inflation was like back then. In May of 2022, the CPI inflation index was a scorching 8.5%. Today, it's only 2.8% - Think about it, gas was pushing the high $3's back then. Now, it's only $2.60 a gallon. That's money in your pocket with every fill-up.

Let’s look at one of the “T’s”: tariffs. It feels like some people want to roll the clock back to 1955—when the U.S. was a manufacturing powerhouse. Sounds nice, but there’s a few potential problems: protectionism doesn’t increase worker pay or improve their way of life. I feel one thing that potentially does improve both is efficiency. Long term, this is how the economy makes more with less.

Here’s a small example, I was talking with a builder this week who has been in the business for 30 years. He talked about the old days when everyone hand-drove nails. Nowadays, they use a nail gun for everything. It’s faster and a lot easier on the forearms. The guy also told me that when he misbehaved at school, his dad would drop him off at a building site and make him drive nails for hours. He said the punishment worked like a charm.

So, all this talk about manufacturing: on-shoring versus off-shoring? I don’t think either really changes the bigger picture. Look at iPhones. They’re “made” in China, but the big profits and top-tier engineering and design jobs stay in the U.S. Who wants to work at Foxconn, sleeping on the factory floor when you could live in Silicon Valley pulling $400K a year?

You know me, I like to close on a positive, and here’s two potential bright lights. The S&P recently opened the day with a drop greater than 1%: that’s fairly rare. Adding insult to injury, stocks went on and dropped an another 1% during that same day. When it rains, it pours! Here’s the potential silver lining. Thanks to Bespoke Investment for providing the hard data behind the potential rally here. This has happened 32 times before. In 31 out of 32 (love those odds!) the market was higher three months later.

The only time that it wasn’t higher was 2022 and the drop was a negligible .6%. I find that nasty down days like this are potentially signaling *the end* as opposed to the beginning of the selloff. I sound like a broken record but pick out a few stocks you’d like to own. Give yourself a mental price you’d like to buy at and when it hits your price, buy a little.

Then sit back and wait. Here's why: Buying methodically at various levels increases your odds of catching the turn. Markets *reward engagement, not hesitation*. You don't need to nail the bottom—you just *need to be involved when momentum shifts*.

Look, this February/March market has been brutal. Stocks just cracked a six-month low – ugly drop. But here's the kicker: they didn't stay down. The market got off the mat and ripped higher. Not just any rally, either. Back-to-back 90% up days, meaning 90% of volume hit on an uptick. That's rare. Hat tip to Jason Goepfert for the stat: it's happened 17 times before, and history leans bullish.

Six months later? Stocks were up 82% of the time, averaging an 8.7% gain. One year later? 88%-win rate, averaging 12.3%. History rhymes instead of repeating, but I know which side I'm leaning on. If you have any comments, feel free to contact me at heddins@capital-invest.com or call at 919-656-0836.

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