



## The Markets Go On Sale

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It's fair to say that the Trump Administration's tariff announcements have not had the desired effect (making us all richer)—at least, not immediately. The S&P 500 fell 2.7% on Monday after dropping more than 5% the previous week. Investors are clearly rattled about the uncertainty of waging escalating trade wars on America's biggest trading partners, and there are additional concerns that the trade barriers being erected in retaliation could lead to a recession.

The recession is actually overdue; we experienced a brief economic downturn during the early stages of the Covid pandemic, but outside of that blip, the economy has experienced unusually smooth sailing for more than a decade. A correction (a 10% decline) is also overdue. The markets have gone 340 trading days without one, but on average these downturns have manifested every 173 days.

Overdue is not destiny, of course. Before the trade wars and the wild DOGE initiatives in the U.S. federal government, it really looked as if the U.S. Federal Reserve had managed to execute a smooth economic landing, and this could still happen. There's no evidence that companies—even if they have to raise prices to pay for the friction caused by tariffs in their cross-border supply and manufacturing chains—are any less valuable today than they were a week ago. And indeed, one explanation for the recent selloff had nothing to do with valuations; the Fed backed off of cutting interest rates as aggressively as some bull market investors had expected.

One exception to the 'companies are no less valuable' concept is Tesla, whose share prices fell 15% on Monday amid reports that dealerships are setting unsold cyber trucks on fire in order to collect the insurance on them. There is an undeniable political backlash against CEO Elon Musk among the previously-most-enthusiastic buyers of electric cars: liberal democrats who are concerned about their environmental footprint. Tesla has been included in the so-called 'magnificent seven' stocks that led the bull market rally since Covid and before, and its decline has had an oversized impact on the market as a whole.

If we do experience a correction in the markets, it basically means that stocks will have gone on sale, generally for emotional (fear) rather than rational reasons. Those sales events typically don't last long—the last bear market, in the first quarter of 2020, lasted just 33 days, and the average since 1929 has been roughly nine months. Most investors are inclined to sell their stocks during these times of fear and uncertainty, but history has shown that buyers who are capable of swimming against the tide end up with higher returns in the long run.

And interestingly, the same might be true of car buyers. Used Teslas, being sold by people who want to rid themselves of their association with the Musk brand, are reportedly selling for \$10,000 less than comparable electric vehicles being sold by other automakers.

**Sources:**

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**Jeffrey Broadhurst**  
MBA, CFA, CFP  
Broadhurst Financial Advisors, Inc.



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**Our physical and mail address:**

1911 West Point Pike  
P.O. Box 301  
West Point, PA 19486-0301

**Contact us:**

Phone: (215) 325-1595  
Email: [jeff@broadhurstfinancial.com](mailto:jeff@broadhurstfinancial.com)