Seeing The Rainbow Through The Storm

March 4th, 2020

The markets are fresh off of a large sell-off week sparked by corona virus fears. From February 20th – 27th we saw the S&P 500, an index that tracks the stocks of 500 large-cap U.S. companies and is a good proxy for overall U.S. equity market movement, drop (11.71%).

How has this impacted investors?

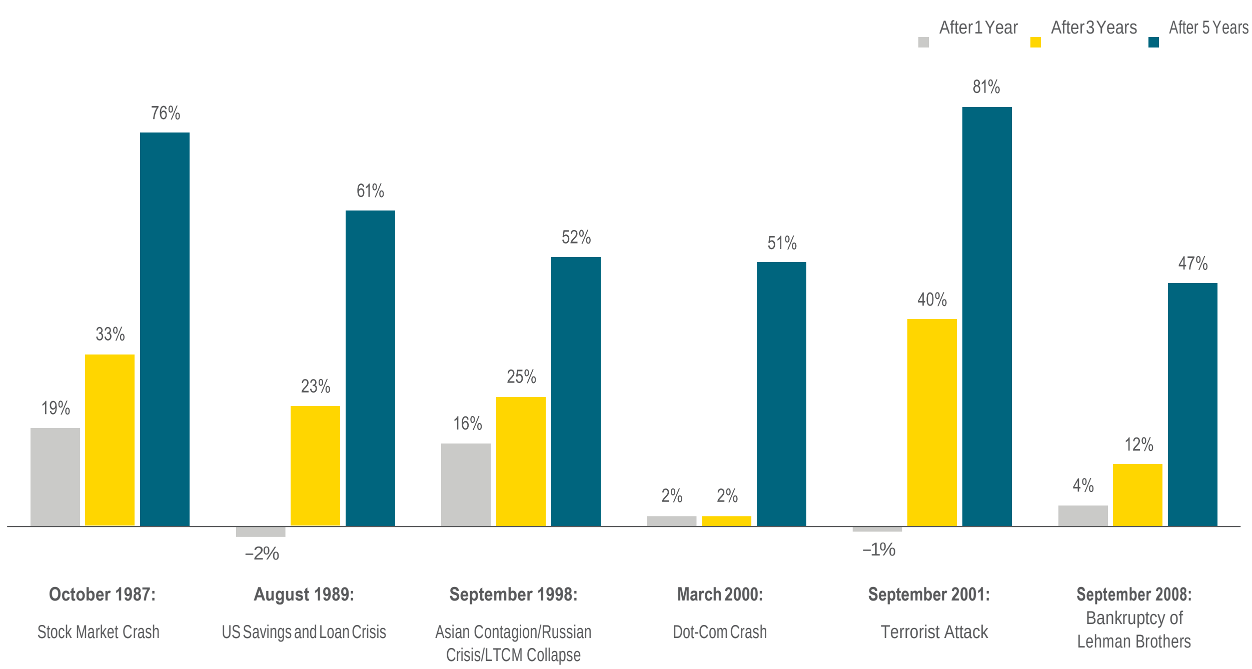
Those that were unable to bear the volatility would have sold and realized their significant portfolio losses. Those that tried to time the market would have had little luck as there currently is no reliable way to identify a market peak or bottom. "Analysis by JPMorgan Asset Management showed that over the 20-year period from Jan. 1, 1999, to Dec. 31, 2018 – a period that included the SARS epidemic, the Middle East respiratory syndrome and Ebola scares – an investor who missed the top 10 best days in the stock market gave up more than 50 per cent of the return. Timing the market simply does not work."[i] Those that stayed on course and rode the waves would have made out far better over that period.

Volatility in the market is normal. Headlines about market volatility will always make it feel as if nothing like it has ever happened before. A determining factor pertaining to long-term investment success is an individual's ability to block out the "noise", the ability to stay on course with their stated goals and investment path to achieve those goals. You may hear family, friends, and news headlines telling you to abandon ship yet historical evidence advises very differently.

During the period from 1987 – 2008 the markets have responded positively to various crisis.

Exhibit 1: The Market's Response to Crisis

Performance of a Balanced Strategy: 60% Stocks, 40% Bonds (Cumulative Total Return)[ii]



We see throughout history, staying invested has provided investors with strong positive long-term returns. Long-term is the key here. We cannot say with a strong degree of certainty if the market will produce positive returns over the coming days, weeks or months. We can say with much more certainty the market will produce a positive return over the next 5-, 10- or 20-year period. The above chart also outlines the high frequency of "never seen before market crippling events". Once again, volatility in the market is normal and should be expected and even embraced. Stocks are more volatile than bonds, and for bearing that additional volatility investors can expect to earn a higher return over the long-term.

With data strongly advising us to stay the course why do we feel so uncomfortable during these events?

Your money is important to you. It funds your goals, retirement, and ability to live comfortably and preserve your lifestyle. Seeing your portfolio decline during market events makes you think these things are in jeopardy. This is why it is of the utmost importance to not make any kneejerk reactions that could negatively impact your ability to reach your goals. If you are feeling overwhelmed, contact your advisor and discuss your concerns. Review your portfolio together to see where your exposure lies and where you have safeguards set up. We take a proactive approach to constructing your portfolios, designing them to suit your needs and manage market risk.

Whether we experience another market decline related to the virus, a resource shortage or an extreme event, we know at some point it will happen, and when it does the best thing to do is stay the charted course. Being able to withstand the turbulent weather will allow you to appreciate the rainbow once the storm has passed.

Peter Watson and Jennifer Watson

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[i] https://www.theglobeandmail.com/investing/investment-ideas/article-timing-the-stock-market-simply-does-not-work/

ii In US dollars. Represents cumulative total returns of a balanced strategy invested on the first day of the following calendar month of the event noted. Balanced Strategy: 12% S&P 500 Index,12% Dimensional US Large Cap Value Index, 6% Dow Jones US Select REIT Index, 6% Dimensional International Marketwide Value Index, 6% Dimensional US Small Cap Index, 6% Dimensional US Small Cap Value Index, 3% Dimensional International Small Cap Index, 3% Dimensional International Small Cap Value Index, 2.4% Dimensional Emerging Markets Small Index, 1.8% Dimensional Emerging Markets Value Index, 1.8% Dimensional Emerging Markets Index, 10% Bloomberg Barclays Treasury Bond Index 1-5 Years, 10% Citigroup World Government Bond Index 1-5 Years (hedged), 10% Citigroup World Government Bond Index 1-3 Years (hedged), 10% BofA Merrill Lynch 1-Year US Treasury Note Index. The S&P data are provided by Standard & Poor's Index Services Group. The Merrill Lynch Indices are used with permission; copyright 2017 Merrill Lynch, Pierce, Fenner & Smith Incorporated; all rights reserved. Citigroup Indices used with permission,

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