
Hello,

I hope you and your family are doing well. The past month has presented us all with unique challenges. Our society, and the investment markets, are in the grips of fear, and the situation remains unsettled. I can appreciate that many are anxious at some level, whether it is regarding your health or finances. My role as your advisor requires me to be calm, rational, and deliberate at times like these. As such, some clear and concise perspective is helpful for everyone to understand where things are at.

We are now in a bear market on the stock exchanges around the world, which means nothing more than that values are down more than 20% from their highs. Despite their infrequent occurrence, these episodes are part of the normal economic & market cycle. Markets took a little longer than a year to recover back in ‘08/’09 (the last bear market), while balanced portfolios took roughly a year to make back the losses. The current market decline is a little more than half the severity of ‘08/’09 and about average for the other bear markets over the last 100 years. Since the financial crisis of ‘08/’09, markets have risen roughly 400% in the US (less in Canadian & International markets), so the recent fall is a temporary unwinding of a fraction of the global gains over the last 5-10 years.

In economic terms, we are confronted with very limited travel, discretionary spending, and production of certain goods worldwide. It is most likely that spending plans are delayed by several quarters than outright cancelled. GDP will fall, perhaps to zero for a few quarters, only to pick up later in the recovery. Throughout history, GDP is remarkably stable, in recessionary periods and not. It is the markets that are driven at times by extreme emotions, such as they are now, that show remarkable volatility, albeit with an upward trend over time.

So, what now? The turn of every single historical bear market happened well before the media and social consensus sounded the 'all clear'. So this is the challenge: while the markets are trying to price in a best guess about what will happen in the next 9-12 months, history shows that they always overreact at the extreme end, only to readjust higher before it becomes completely clear in the media or economic indicators when that will happen. 100% of the time after episodes of volatility like this, markets are higher, by >20% on average 1 year out. What we don't know is if the maximum downside will stop where it is here, or after another say 5-10% down. If we sell any equity now, and this point in time does mark the bottom (maximum fear), then one is guaranteed to have lost at least some of the ability to participate in the inevitable full upside recovery. But even if there is some more downside in the short-term, with near certainty we can say that staying invested in high quality companies, and collecting their dividends along the way, will enable your portfolio to recover from this one year hence.

To many, the urge to 'do something' to mitigate what might happen next week (e.g. more downside?) is hard to resist, but the higher odds of success strongly favor being patient. Portfolio managers are taking advantage of the opportunities that recent market chaos have provided. They are adding to positions in companies whose growth prospects they are very confident in and eliminating companies whose futures are less certain. Many equity funds have had significant allocations to cash leading into this market correction. Those managers are putting the cash to work and purchasing ownership in great companies at bargain prices.

We recognize these are trying times but putting up with these episodes of extreme volatility is the required price in order to earn better returns than mere GICs over the long term. And when we look back over time, the price really isn't that steep (it only feels that way in the moment).

At times like this it's worth recalling what investing legend Warren Buffett wrote in the New York Times during the crash of 2008. "The financial world is a mess, both in the U.S. and abroad," he wrote on Oct. 16, 2008. "In the near term, unemployment will rise, business activity will falter, and headlines will continue to be scary. So…I've been buying American stocks." He added: "A simple rule dictates my buying: Be fearful when others are greedy and be greedy when others are fearful. And most certainly, fear is now widespread, gripping even seasoned investors."

As always, please feel free to call or email – any time. Please take care, we will get through this.

Best regards,

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