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February 2020 Monthly Commentary

Last month, fears over the economic impact of coronavirus sent U.S. stocks into their first correction in more than a year, with major stock indices down more than 10% from their highs in just over a week. While such a large and fast move downward feels scary, stock market corrections are a normal and healthy part of investing. Investors will only suffer negative consequences from a correction if they act out of fear and sell stocks at depressed prices.

Investors often ask what they should do after stocks fall like they did last month. But since no one can predict short-term stock market movements, the better question to ask is what can you do to prepare in advance for a correction while everything is going great in the stock market? Our Group asks ourselves that every day, and we already took action to protect our clients from the impact of the current correction long ago. The first thing we did was make the decision to never invest in anything that doesn’t have a track record of enduring through a series of historical crises. We have the highest confidence in every investment we own, and we invest with the expectation that we will experience future unprecedented crises, such as coronavirus, and that our investments will endure.

The second thing we did to prepare in advance for the current stock market correction was to make sure that clients in retirement or living off of their investment assets maintained at least three to five years’ worth of living expenses in cash and bonds. This ensures that even if the stock market experiences a prolonged slump, retired clients will be able to fund living expenses from a stable source of cash and bonds, rather than selling stocks at depressed prices. The stocks then remain intact as a source of future growth and we can sell them to raise funds after they recover.

Now that we’ve discussed what we did to prepare in advance for the current correction, we’ll mention what we won’t do. The biggest mistake we as financial advisors see during corrections is selling stocks after the market has gone down. Many financial advisors themselves make this mistake. We understand the emotions at work during market declines. Yes, it’s scary. But the cold, hard data show that attempting to time the market, and move in and out of stocks, has the potential to destroy your financial future. DALBAR, which has published the foremost studies of investor behavior for more than thirty years, studied the impact of attempted market timing for the twenty years ending 2017. DALBAR showed that the average investor who owned a blend of stocks and bonds, and who attempted to move in and out of investments based on market conditions, earned an annual rate of return that is 4.2% lower than investors who would have simply stayed the course with their investments regardless of market gyrations. If you have a million dollar portfolio that means you earned $42,000 a year less because of trying to time the market. Our Group will not harm our clients by moving in and out of investments simply on the basis of whether the market may go up or down over the short term. We will only reduce stock exposure as a result of a change in a client's life circumstances, such as approaching retirement, or as a result of a client's risk tolerance becoming more conservative[(1)].

Of course, no one ever knows how long a correction will last nor how far stocks will fall before they start rising again. What we do know is that so far, the current stock market correction is very average. Over the past forty years, U.S. stocks have experienced an average annual correction of 14%. So far, the current correction has reached 13%, so well within the range of average[(2)].

Predictions are always tricky, and we agree with the old adage that predictions tell you more about the person making the prediction than they do about the future. But barring a cataclysmic disaster, the current stock market correction will be temporary, just as every stock market correction in history has been temporary. Our Group will continue to work to make sure our clients' financial plans remain on track by preventing them from selling stocks after they've fallen.

Best Regards,

The Crescent Group
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<u>Sources:</u>

(1) RBC Wealth Management
(2) JP Morgan