RBC Wealth Management
The Crescent Group

Carsten Frederiksen, CFP®
Senior Vice President
Financial Advisor
Senior Portfolio Manager
Portfolio Focus
Direct: 214-775-6401
NMLS#: 1321563 City National Bank
[The Crescent Group website]

Paul Hendershot
Senior Vice President
Financial Advisor
Senior Portfolio Manager
Portfolio Focus
NMLS # 1370978 City National Bank

Nick Weege
Financial Advisor
214-775-6408

Lindsey Vickers, MBA
Client Service Associate
214-775-6458

Andrew Ielmini
Client Service Associate
214-775-6448

June 2020 Monthly Commentary

During June, the U.S. added more jobs than in any other month in its entire history, as the world continued to emerge from coronavirus lockdowns. U.S. stocks continued to reflect the historic economic recovery, with the Dow Jones index reaping its best quarterly gain in 33 years. The economic and financial market experience of the past three months once again emphasizes the importance of keeping your wealth allocated to sound investments, rather than attempting to forecast the short-term direction of the stock market and moving in and out of cash[1].

The coronavirus recession also highlights another major retirement mistake to avoid: thinking that the next recession will unfold the way the previous one unfolded, and positioning your investments accordingly. Over the past twelve years, many investors have fretted over the prospect of another major wipe out of their retirement savings, similar to what happened with the financial crisis.

The 2008 Financial Crisis began with the bursting of the bubble in home prices in the U.S. Furthermore, financial institutions had invented ways of bundling mortgages into investments, which led to widespread losses across banks when many mortgages defaulted. Several large banks needed rescuing. The U.S. experienced the worst economic crisis since the Great Depression, and the Federal Reserve and Treasury had to invent new techniques to save our economy. Additionally, Congress acted slowly and insufficiently in approving funds to help combat the crisis due to the political difficulty of appearing to bail out Wall Street. As a result of this highly unstable situation, U.S. stocks fell more than 50% before beginning a dramatic recovery that left many fretful investors behind.

The covid-19 crisis consists of a completely different set of circumstances than the Financial Crisis. First and foremost, banks are not the problem. Last week the Fed released the results of its stress test of banks, which showed that even under its extremely adverse covid-19 economic scenario, America's banks remain sufficiently healthy. Additionally, during the peak of uncertainty and panic in March, the Fed and Treasury immediately deployed tools developed during the Financial Crisis to maintain functioning financial markets during the covid-19 crisis. Congress acted swiftly and strongly in providing stimulus funds. As a result, the covid-19 crisis has thus far justifiably unfolded much differently from the Financial Crisis, with the economy and financial markets rebounding much more quickly. That's bad news for investors who have spent the past twelve years preparing for the next great financial crisis. No doubt, many investors will now spend their time leading up to the next recession thinking about how to protect themselves from the next health pandemic, even though it could be decades or even a century away (Prior to covid-19, the last pandemic to impact the U.S. in a similar way occurred in 1918). The next recession will almost certainly unfold differently from the current one, and any efforts to protect your investments from a pandemic will likely work against you. As investment great Peter Lynch said, "far more money has been lost by investors preparing for corrections, or trying to anticipate corrections, than has been lost in corrections themselves[2][3]."

As a final note, it's important to distinguish preparing for a recession and moving into cash or other investments to try to pad a portfolio from a downturn, versus owning high quality investments designed to do well over time no matter what happens. With the first strategy, an investor is trying to guess the direction of the market, and they won't succeed over time. With the second strategy, an investor is positioning their retirement assets for growth while maintaining peace of mind knowing that the investments they own have withstood the test of time and will work out well over an average retirement horizon. Now that stocks have recovered substantially from the coronavirus panic, many investors think "the coast is clear", and have started returning to the speculation and gambling seen prior to the pandemic. But the coast is never clear if you plan to gamble with your money. Anyone can gamble when the market goes up every day, but what happens when the market falls 30% to 50% as it did last March? If you don't want to panic and make a bad decision that hurts your retirement (like selling after the market falls), you better be comfortable with every investment you own and make sure each of them is on solid footing.

Over the past fifty years, the Dow Jones index and S&P 500 index have experienced prolonged periods of ten years or more of no return. The main culprit behind these periods was financial bubbles. Auto and airline stocks in the 1960's and 70's, technology stocks in the 90's, housing in the 2000's, and now __________. Rest assured, there's a bubble brewing, there always is. We won't know what it is until it bursts, but typically it's whatever's most popular. Our Group will continue to shield our investors from investment gambling and herd behavior, and will only invest client assets in sound and proven companies selling at reasonable prices to help keep their retirement plans on track[4].

Best Regards,

The Crescent Group
Carsten Frederiksen, CFP® | Paul Hendershot | Nick Weege | Andrew Ielmini | Lindsey Vickers, MBA

Sources:

(1) CNBC
(2) Board of Governors of the Federal Reserve System
(3) MarketWatch
(4) Fortune