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March 2020 Monthly Commentary

We'd like to open by saying that we hope you and your loved ones have stayed healthy during the coronavirus pandemic. It's rare for an event to impact everyone's physical and financial health at the same time, and we're all in this together. We know how trying it is to endure the life changes brought on by social distancing, while at the same time managing through a large stock market correction. Do not hesitate to contact us to discuss any questions or concerns.

While the headlines for both the virus and the economy have been scary, and could get worse before they get better, we remain optimistic about the future of America and its economy. Every crisis unfolds in a different way, but they all end in the same way: with a recovery. Quite simply, life is full of setbacks, and humans push through them. When our government determines that it's safe, we will return to the activities we used to enjoy, and our economy will return to an upward path. Several of the companies we invest in have already reported that businesses are in the process of returning to normal in China - a great sign. In the meantime, our government is actually doing the right things. Can you believe it? The Senate and House actually passed the stimulus bill quickly. Our nation actually can come together! (Even in 2008, the stimulus bill was delayed by partisan bickering.) Additionally, the Federal Reserve is firing on all cylinders and has taken the right steps to make sure our financial markets function properly. We will get past covid19, and America's best days lay ahead.

Meanwhile, yes, this market correction is painful. It's one of the fastest on record, which makes the sting even worse. But here's how our team views the situation: the bad news is that large occasional corrections are a regular part of investing in stocks and earning the high long-term return that they provide. The good news is that corrections on the scale of the one we are currently experiencing are truly rare and exceptional. Over the past fifty years, this is only the fifth time that stocks have fallen 30% in a single year. So this type of correction only happens about once every ten years on average. The last time it happened was twelve years ago in 2008[1].

While large market corrections seem scary, they will have no impact on your retirement goals if you are properly positioned ahead of time and don't allow fear to impact how you respond to the correction. We refer to those two factors as correction protection. Our Group takes care of the first part of correction protection the moment our clients first invest with us. For clients nearing retirement, in retirement, or otherwise living off of their assets, we maintain three to five years' worth of living expenses in cash and bonds so that clients have a stable source of funds to live off of without having to sell stocks at depressed prices.

The second part of correction protection comes in the moment, and can be more challenging. We do everything we can to prevent our clients from selling after the market has fallen. Many investors are tempted to sell after the market declines because they think it will prevent further losses if the market falls further. The problem is that the cold hard data shows this is wrong. Maybe the market will fall further, and maybe it won't. First you have to get that right. Then if the market does fall further, you have to get back in at the right time. Studies show you will be wrong when trying to guess your way through those two decisions. The result will be that you will lose more money trying to get the timing right than if you simply sit still and stay the course with your investments. The largest study of investment behavior, conducted by DALBAR, looked at the returns of investors in a blend of stocks and bonds over the twenty years ending 2017. Those investors who attempted to move in and out of investments based on market conditions earned an annual return that was 4.2% lower EVERY SINGLE YEAR than those investors who simply stayed the course with their investments. For an investor with a million dollar portfolio, that means they earned $42,000 less every single year if they tried to move out of stocks and then get back in. Our Group does everything we can to prevent our clients from becoming a part of that unfortunate statistic[2].

Finally, we'd like to leave you with an idea that might help you think about this market correction more constructively. Suppose you're selling your house, and it appraised for $500,000. What would you do if someone made you an offer for $325,000? Unless you have an emergency cash need, you wouldn't even consider selling at that price. That's exactly what happened at the high point of the market correction last month. Stocks hit a low point of 35% below their peak. Selling stocks at that time would be like selling your house for 35% less than its worth. Now suppose you're looking to buy a new home that costs $500,000. Suppose you looked at the location and pictures of several homes online, and decided which house you really liked. You go in person to look at it and it really is just perfect and you decide to offer the asking price of $500,000. What would you do if your realtor told you that something happened to the seller that morning and they needed to unload the home and decided to sell it to you for $325,000? You'd probably sign the contract right there and crack open the champagne. Hopefully this anecdote helps with putting the current market correction in perspective. Even if you aren't buying additional investments with cash right now, most of the companies we own have active share repurchase programs, so we are all benefiting as those companies buy shares at depressed prices.

Again, please do not hesitate to contact us with any questions or concerns.

Best Regards,

The Crescent Group
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Sources:

(1) Virtus
(2) RBC Wealth Management