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May 2020 Monthly Commentary

During the month of May, the United States and many countries around the world continued to reopen their economies. While we remain in the early stages of economic recovery, economic data have started to indicate that the worst may be over for the pandemic's economic impact. Financial markets in the U.S. reflected the nascent economic recovery, with stock prices continuing the historic rebound which began in March[1].

As investors have become excited about the prospect of economic recovery, signs of risk-taking and crowd-following have returned to investment markets. It's important to distinguish the risks from this type of behavior from the risks of the coronavirus impact. We had full confidence in advising our clients to remain invested during the worst of the coronavirus market panic in March. This wasn't because we expected a fast snap back in the stock market or economy. We have never had and never will have short-term expectations about which direction the stock market moves. We advised clients to stay invested because we believed in the long-term fundamentals of the U.S. economy and of every investment we owned. We therefore expected that our clients would continue to do well over time if they remained invested. Studies in fact confirm that attempting to sell stocks to avoid losses and then get back into stocks once there's more clarity does great harm to investor returns[2][3].

The risks of a temporary market decline caused by an external but temporary event like coronavirus differ substantially from the risks of following the crowd into the most popular investments. The history of investment markets consists of one example after the next of the most popular investment trends ending in bust. Some examples include technology stocks in 1999, home prices in 2008, and Dutch tulip bulbs in 1637. During the coronavirus pandemic, speculators have flocked to stocks they think will do well during stay-at-home lockdowns. Television personalities have touted baskets of such stocks that they've created. But history has shown that buying into investments after they've gone up, simply because they've gone up, usually doesn't end well. And unlike a temporary market decline that's guaranteed to get corrected upwards, getting caught up in a bubble and overpaying for popular investments can have big long-term consequences[2].

Within the past several decades, we can point to two times when investors earned no long term returns: the Dow Jones Industrial Index was flat for the seventeen year period from 1964 to 1981, and the S&P 500 index was flat for the thirteen year period from 2000 to 2013. Overenthusiasm for auto and airline stocks was a major reason why the Dow was flat over that time period. Similarly, the S&P 500 was flat for thirteen years as a result of two consecutive bubbles in the most popular investments – first with technology stocks and then with home prices. These large time periods of no return are the reason why we say that following the crowd and investing in what's popular is more dangerous to your retirement plan than a stock market crash. Despite the sensational headlines and panic brought on by a stock market crash, the long-term results of crashes has been benign. Looking at data since World War II, the average stock market crash consisted of a 30% decline and took 22 months to recover (so far the coronavirus crash reached a peak decline of 35% in March and has recovered substantially as of the end of May). So the average stock market crash takes less than two years to return to the previous market peak, whereas following the crowd into popular investments can lead to 10 to 20 years of no return. Obviously, a setback of less than two years has a much lower impact on your retirement plan than does a 10 to 20 year setback[2][4].

The coronavirus crisis highlights the exact reason why our Group invests client assets the way it does. Anyone can own stocks and make easy money when the market goes up every day. But if you want to be able to sleep at night when the sky is falling and markets are crashing, you need to know that you own the best of the best investments that are leaders in their industries. You need to know that your investments will recover as the crisis passes.

During tough times, consumers flock to trusted brands and basic necessities. We saw it with toilet paper hoarding and pantry-loading of food products at grocery stores during the current pandemic. There was no shortage of toilet paper and covid-19 isn't a stomach or intestinal flu. Some psychologists have indicated that consumers hoard familiar products and brands during crises because consumers view such purchases as something they can control. Owning companies that make such basic necessities has helped protect our investors from the coronavirus impact. Furthermore, people cook more during tough economic times, and obviously that has been especially true during the current crisis due to lockdown measures[1][5].

We will continue to help our clients avoid following the crowd with their investments, and invest our clients in what's proven and sound in order to continue to successfully navigate their retirement plans through the coronavirus crisis. We will use this same sound approach to navigate our clients through future crises.

Best Regards,

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<u>Sources:</u>

(1) The Wall Street Journal
(2) CNBC
(3) RBC Wealth Management
(4) Fortune
(5) Time