TD Wealth

Going Nowhere Slow

A newsletter from William Barlow, CFA, CIM®, B.Sc., Vice President, Portfolio Manager, TD Wealth Private Investment Advice

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The average long-term experience in investing is not surprising, while the short-term experience is almost always surprising

Moving the Markets:

Trade progress, better than expected earnings, and falling interest rates have helped the market move close to the point of breaking out, while impeachment gate 2019 has put a lid on excessive optimism.

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The stock market hasn't done much for a while now, although the current breakout has been welcome. There have been a lot of interesting headlines, and some dramatic swings up and down over the last sixteen months, but we don't have a lot to show in terms of material progress higher. As I write this note, the price return on the TSX going all the way back to October 30, 2017 is a mere 2.73%! The rational observer would be correct suggesting that over that time period, we haven't really been compensated for the risk of investing in common stocks. If this weren't enough, the drumbeat of negative headlines involving impeachment and recessions has added to the overall sense of angst. During times like these it's generally a good idea to take a step back and assess overall expectations, and to also assess whether or not the sideways movement of major indices is something to be concerned about.

A good jumping off point is to reiterate that the stock market does not provide average returns in any given 12 month period. By definition, a mathematical average is a sum of a group of values divided by the number of values in the group. With this in mind, it's unlikely that you'll ever see your average return in any given year, rather you'll have some periods below average, and some periods above average, which collectively, over-time, will provide your average return. In practice, this means that if you have a target rate of return for an investment plan, in some years you'll fall short, in some years you'll exceed those returns, and in subsequent periods you'll either regress or progress towards the long-term average.

Looking back at the actual data is even more interesting, as we find there are long periods of time, just like the one we're in right now, where the market goes absolutely nowhere, or worse still goes down (think 4th quarter last year). For example, according to Bespoke Investments, the S&P 500 Index returned a paltry 1.1% from 1966-1974, -4.7% in 1981, -3.1% in 1990, 1.3% in 1994, and a hair raising –36.6% in 2008. All of these periods were frustrating, and 2008 in particular would have one question the viability of investing in stocks altogether. Thankfully, returns following these periods saw a 69.6% rise between 1975-1976, a 294.3% return between 1982-1989, a 53.9% return from 1991-1993, 247.5% return from 1995-1999, and 156.4% return from 2009-2014. Despite the stretches where no progress was made, what's not to like about the 9.5% average return on the S&P 500 Index going back to the great depression?

The point is that stock returns are only linear if you zoom out far enough. The further you zoom in, and therefore the shorter the time horizon you look at, the more likely you are to notice that stocks are volatile, and can go nowhere for long periods of time. Returns are lumpy, and we're in the negative part of that lumpiness as we speak. Although we don't know how long this will last, we can hopefully take some comfort in knowing that it isn't all that unusual historically.

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What I'm Reading: *The Rule: How I Beat the Odds in the Markets and in Life—and How You Can Too* by Larry Hite. Larry Hite is a world famous investor whose strategy has been well documented overtime, but tends to receive less publicity than fundamental strategies. Mr. Hite is a trend following trader, which is a practice that pays attention to price above anything else. *The Rule* is a pretty simple book which I enjoyed, and the key take away from Mr. Hite's point of view is whether in business or in life, the key rule is that losses should be cut quickly. There are a handful of other rules, and all of them seem to stem from this one primary rule. It's similar to other trading books, but interesting to see from the point of view of the legendary trader himself.

Who I'm Following: According to the Motley Fool, the average person spends 100 times as much time watching TV than they spend on their personal finances. This is pretty alarming. In my experience, the time spent on personal finances is also misallocated to things such as which one stock should we buy, as opposed to important things like having a coherent overall strategy for saving, investing and retirement.

Market Folly: Perhaps the market makes a little bit of sense after all. The current bull market has seen all sorts of wild elements. None of them, so far, have spilled into the mainstream or have done enough to really derail the bull. Case in point is the interesting valuations of private equity and so called unicorns, which are private companies valued at over $1 billion dollars. The market folly among these is We Work. The We Company is a real estate company masquerading as a tech company which has seen it's IPO shelved, it's valuation cut from $47 billion to near bankruptcy, and it's founder exiting with a reported $1.7 billion settlement.

Reason to be Optimistic: All time highs are here and the probability of breaking above all time highs is pretty high as well, if history is any guide. I've written about this before but it's worth noting again for good measure: all-time highs are a good thing! The market tends to take one step back and two steps forward over various time frames. In order to take another step forward we need to first get back to the starting point, suggesting once again that all time highs are to be cheered, rather than feared.

Outside the Office: Halloween is a two month long affair at our house, and it's starting to slowly draw to a close. Henry and John settled on Batman and Spiderman after flip-flopping numerous times between the likes of Green Goblin, Iron Man, and most other super heroes and super villains. Max has just turned one participated as a pumpkin.

Select Benchmark Returns – October 31, 2019

Asset Class	YTD	1 Year	5 Years	Asset Class	YTD	1 Year	5 Years
S&P/TSX Composite (Canada)	15.08%	9.69%	2.44%	CDN Bond Index	7.60%	10.18%	3.75%
S&P 500 (US)	16.88%	12.16%	11.93%	CDN Short Term Bond Index	3.18%	4.69%	1.88%
MSCI Europe	18.10%	11.64%	4.21%	CDN Long Term Bond Index	14.12%	18.04%	6.33%
MSCI Emerging Markets	6.80%	12.44%	6.56%	US$/CDN$	3.67%	-0.13%	-3.04%
MSCI Far East	15.58%	10.59%	6.88%	S&P TSX Energy	8.81%	-1.02%	-4.60%
MSCI World	16.90%	13.50%	11.59%	S&P TSX Materials	18.24%	25.07%	6.19%

Source: TD PAIR, TD Securities

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