TD Wealth

Going Viral

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

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This too shall pass
-Persian adage

Moving the Markets:

As I write, the central bank here in Canada, in addition to the US have cut interest rates multiple times. How this plays over in the decades to come is anyone's guess, however using history as a guide, rate cuts appeared to be bullish for risk assets over a 12 and 24 month period.

William Barlow, CFA, CIM®, B.Sc.
Vice President, Portfolio Manager
TD Wealth Private Investment Advice
T: 416 512 6676
TF: 800 382 4964
F: 416 512 6224
william.barlow@td.com
willbarlow.com

Ida Solie
Client Service Associate
TD Wealth Private Investment Advice
ida.solie@td.com
T: 416 512 7623

We are in the midst of a startling human tragedy the scale of which hasn't been seen in modern times. My message today is important: by thinking long-term, staying extremely disciplined, and sticking with your plan, you'll prevent this human tragedy from becoming a personal financial one. Of all the attention catching headlines over the past month, perhaps none is more scary then the often recycled 'Market Falls on Uncertainty' headline. As it turns out, it is in all aspects of life where uncertainty reigns supreme at all times. This is of course because the future is inherently unknowable, and by definition uncertain. In times of market duress, this is a crucial piece of information because it provides clues as to where we should be focusing our attention, with the objective of ensuring that the best possible decisions are made.

First and foremost, our attention should most closely be focused on our personal time horizon. I point this out frequently in these missives, and will do so again because the importance of time horizon cannot be over emphasized. There can often be many segments of one's time horizon, for example employed vs retired, but for the purposes of planning and investing, the critical number is life expectancy. The practical implication during a disruption such as the Coronavirus scare is that if you can be reasonably expected to live another 5 years minimum, the happenings of several months should be of extremely minor importance. Note that I'm assuming those who are drawing income from a portfolio have it set-aside via a proper plan.

Now that we've established that paying attention to your time horizon is objective one, it could be argued that all other allocation of attention is futile, which would overlook that fact that we're human! When we are tempted to look beyond the most important asset of time to the ubiquitous talking heads, there are guidelines that might help. I would agree with Harvard epidemiologist Mark Lipsitch who recently categorized pontification on Coronavirus as A, facts. B, informed extrapolations from analogies to other viruses and C, opinions and speculation. Within these three categories, step one will be to completely avoid anything to do with option C, which won't provide any benefit, and could in fact tempt one in to altering their long-term plan for short-term, unfounded reasons. When focusing on category A and B, step two should see us acknowledge that even the views of informed participants should not supersede our most important focus, which once again is our personal time horizon. (https://blogs.scientificamerican.com/observations/how-to-report-on-the-covid-19-outbreak-responsibly/).

Once we've successfully focused on ourselves and adjusted our noise filter to allow only for facts and informed extrapolations, the final step will be to act opportunistically. The most successful individuals and organizations view disruptions as opportunities that can be capitalized upon and learned from. Investing is no different, and those investors who have a plan, who hold cash, who hold fixed income, should be well positioned to take advantage of the current environment. Howard Marks summed up this relationship by saying in the real world, things generally fluctuate between 'pretty good' and 'not so hot.' But in the world of investing, perception often swings from 'flawless' to 'hopeless.'. (https://www.marketwatch.com/story/oaktrees-howard-marks-has-5-tips-to-make-you-a-superior-investor).

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What I'm Reading: *The Ride of a Lifetime: Lessons Learned as CEO of the Walt Disney Company* by Robert Iger. I took this in via Audible and it was my second entertainment book of the month with the first being *Who is Michael Ovitz?* I highlight this one because it's topical given Mr. Iger's announced departure from Disney in his current role last month. This was a really entertaining listen on many fronts. The principles are simple and likely timeless, and Mr. Iger's decisiveness and ability to change his mind quickly in a constantly changing business has important implication for investing and beyond

Who I'm Following: Factor investing is challenging because sometimes factors don't work for a very long-time. Take value investing for example, whereby one purchases securities that are deemed to be cheap based fundamental attributes. This strategy was made famous by Warren Buffett, and has fallen on hard times. According to AQR's Cliff Asness, the value factor has underperformed the growth factor for the last decade which happens only rarely. More surprising still, growth outperformed value by a whopping 6.4% to start 2020! This gives an idea as to why factor investing looking great on paper, but is extremely challenging in practice. (https://www.aqr.com/Insights/Perspectives/Never-Has-a-Venial-Sin-Been-Punished-This-Quickly-and-Violently)

Market Folly: The Dalbar Study is an annual report of investor behavior that shows how various categories of strategies, investors, and asset classes have performed over various periods of time . One such category is the so called average investor, which draws heavy scrutiny owing to the dismal results achieved this category over the last two decades. Once again in the most recent update, the average investor underperformed the market significantly due to market timing decisions. This brings the 20 year return for the average investor to an outright shocking 1.9%. This is less than inflation, bonds, a 60/40 portfolio, and of course the S&P 500 which just about tripled this performance over the same time period.

Reason to be Optimistic: Even stereotyped perma-bears like Rosenberg Research & Associates, David Rosenberg have suggested that this too shall pass when considering the effects of the Coronavirus. This says a lot given the current extreme levels of pessimism. Beyond punditry, it's interesting to note that previous outbreaks of a similar nature, from SARS to H1N1, have all been quality buying opportunities when looking in the rear view mirror

Outside the Office: With school cancelled our three boys will no doubt be a bit stir crazy sometime soon. Thankfully, they're in great health and aren't old enough to yet worry about things like the rest of us!

Select Benchmark Returns – February 29, 2020

Asset Class	YTD	1 Year	5 Years	Asset Class	YTD	1 Year	5 Years
S&P/TSX Composite (Canada)	-4.69	1.65	1.32	CDN Bond Index	3.64	9.10	3.09
S&P 500 (US)	-5.47	8.19	8.55	CDN Short Term Bond Index	1.70	3.93	1.72
MSCI Europe	-11.53	0.01	1.88	CDN Long Term Bond Index	5.99	16.72	4.96
MSCI Emerging Markets	9.68	-1.51	3.11	US$/CDN$	-3.27	-1.94	-1.41
MSCI Far East	-9.83	-0.12	4.00	S&P TSX Energy	-9.21	-4.76	-2.45
MSCI World	-8.94	5.23	6.48	S&P TSX Materials	-9.76	5.48	1.15

Source: TD PAIR, TD Securities

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