TD Wealth

It's Working!

An exclusive newsletter from William Barlow, CFA, CIM®, B.Sc., Vice President, Portfolio Manager, TD Wealth Private Investment Advice 2020 Vol. 2 of 6

Your short-term success is determined by your ability to stick with your plan. Your long-term success is determined by your short-term success.

Moving the Markets:

The epic battle between the natural disaster of COVID-19 on one side and the unprecedented fiscal and monetary response on the other, continues to push markets higher and lower, with the victory (so-far) going to the fiscal response

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John Maynard Keynes is thought to have famously said that markets can remain irrational longer than one can remain solvent. In the environment we're in, this quote can rightly be categorized as apropos. When trying to rationalize the juxtaposition between dire economic data and a market that isn't down all that much, I think we can be forgiven for being confused. We're seeing news of staggering unemployment with cratering consumer and business confidence on the one hand, coupled with major indices that are currently showing losses of a magnitude that tend to occur on average every single year on the other. The market, or so it would appear, is broken. My effort in this note will be to make the case that the market doesn't have to make sense, isn't broken, and that waiting for things to make perfect sense is likely a mistake. I'll also put forth my opinion that that not only is the above true, but perhaps more important is that a carefully considered plan that is being executed upon, is also working well under the current circumstances.

The S&P 500 and TSX Composite are down just over 15% as I write this, which to reiterate from my introduction, is the type of decline equity investors are used to seeing quite often. The economic numbers, however, are the worst we've seen in decades, and as news outlets are eager to point out, are in some cases significantly worse than the great depression (https://www.businessinsider.com/5-charts-how-coronavirus-economic-fallout-compares-to-great-recession-2020-5). Beyond the simple explanations often quoted such as 'the stock market is not the economy' and 'you can't invest in GDP,' a deeper dive reveals that the market has in fact reflected what we're seeing in the economy reasonably well. Energy stocks, travel stocks, casinos, financials, emerging markets, and segments of the retail industry have declined significantly, in some cases over 80%. On the flip side, so called stay-at-home companies, segments of the healthcare industry, large technology companies, and other pockets of the market have held up well. So the quotes above tend to over simplify things, but they're also useful because some of the major indices we see on TV don't necessarily reflect the broader economy all that well. If the market we saw quoted most often in the news consisted of local mom and pop shops as opposed to global behemoths, the numbers would likely look a lot different (https://theirrelevantinvestor.com/2020/04/23/why-arent-stocks-down-more/).

If we can come to terms with the idea that the market can be working well without making a whole lot of sense, it's likely as important to see if your financial plan is working as well. The key inputs to a financial plan are time-horizon, cash flow needs, and risk tolerance, in no particular order. If none of these items have changed, then the idea is to resolutely stick with your plan, because similar to a diet, consistency is everything. If your time horizon is long, you'll simply rebalance in line with your strategy, and let the market odds work in your favor. If you require monthly cash flows, you likely have them set aside or covered via interest and dividends for many years, so forced selling during a temporary decline once again doesn't present a risk. If your risk tolerance is low, you're likely following a balanced portfolio that isn't remotely close to 100% equity, and therefore moves significantly less than the overall market. Again, following a plan is working even now.

So where do we go from here from both a market standpoint and a planning standpoint? This question is unknowable as it pertains to the market, and it is actually your financial plan or specific investment strategy that will answer these questions. This will be the case in both good times and in bad. Not only will your plan or strategy tell you when to buy, sell, and hold, it will do so with no emotion whatsoever, and will likely do a better job than we can by making decisions ad hoc. At present, consistency is everything and this can't be overstated. By definition consistency means making the right short-term decisions over very long periods of time regardless of the temptations otherwise.

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What I'm Reading: *Think and Trade Like a Champion* by Mark Minervini. This is a trading book as opposed to an investing book which is an extremely important distinction. Mr. Minervini was featured in the iconic *Market Wizards* series for having one of the best track records of any trader, and the back flap makes the case that most investors would love to have the author's worst year as their best. The commonality in most trading books relative to investors is the tolerance for losses. Traders tend to quickly, and with no emotion, cut losses immediately, and at a previously decided exit point without regard for fundamentals. It is challenging to execute from a discipline standpoint, which is one of the main similarities between trading and traditional investing approaches.

Who I'm Following: Amazon went public at around this time 23 years ago and in 1999 decided it was going to branch out beyond books. A Wired article that year noted that "if Jeff Bezos's vision comes true, here's how you'll shop in 2020: The vast bulk of store-bought goods - food staples, paper products, cleaning supplies, and the like - you will order electronically. Some physical storefronts will survive, but they'll have to offer at least one of two things: entertainment value or immediate convenience." (https://www.wired.com/1999/03/bezos-3/)

Market Folly: With negative oil futures, exploding credit funds, and the cruise lines being the number one held group of stocks on Robinhood, there is no shortage of folly to choose from. I've chosen one that is unrelated to the market and hits close to home which is the user agreements companies force us to 'read through' before signing up for something or making a purchase. I was surprised to see that Microsoft takes the cake here: if you were to read the full Microsoft user agreement, it would take over an hour to get through. This is just shy of the one hour and ten minutes it would take to read Shakespeare's Macbeth. Almost as interesting, apparently 3% of people actually read the full agreement! (https://www.visualcapitalist.com/terms-of-service-visualizing-the-length-of-internet-agreements/)

Reason to be Optimistic: At the risk of pointing out the obvious, things are getting better on virtually every front when it comes to the pandemic. Therapeutics from several different companies are in the works, while early vaccine trials are showing promise as well. Other progress can be seen in the overall curve of both new infections, daily deaths, and the percentages of those who have fully covered. On the economic front, several companies saw notable increases from subdued levels of activity, which suggests that when the economy reopens, things will continue to move forward.

Outside the Office: Our kids are happy and healthy, and the better weather is welcome, but there is no doubt that we're running out of steam on home front.

Select Benchmark Returns – April 30, 2020

Asset Class	YTD	1 Year	5 Years	Asset Class	YTD	1 Year	5 Years
S&P/TSX Composite (Canada)	-13.38%	-10.86%	-0.59%	CDN Bond Index	5.41%	8.52%	3.71%
S&P 500 (US)	-9.85%	-1.13%	6.91%	CDN Short Term Bond Index	3.2%	4.31%	2.09%
MSCI Europe	-15.89%	-3.94%	0.62%	CDN Long Term Bond Index	7.24%	13.85%	5.76%
MSCI Emerging Markets	-15.9%	-4.02%	1.25%	US$/CDN$	-6.62%	-3.5%	-2.72%
MSCI Far East	-9.12%	3.0%	2.82%	S&P TSX Energy	-26.9%	-22.2%	-6.66%
MSCI World	-7.95%	7.37%	6.44%	S&P TSX Materials	10.36%	35.04%	6.98%

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Source: TD PAIR, TD Securities