TD Wealth

Noooooooobody

An exclusive newsletter from William Barlow, CFA, CIM®, B.Sc., Vice President, Portfolio Manager, TD Wealth Private Investment Advice 2020 Vol. 3 of 6

There are two types of investors: those who know they don't know, and those who simply don't know

Moving the Markets:

There is no lack of news to challenge even the most disciplined investor in 2020, and that doesn't appear to be abating anytime soon. The easing of lock-downs is underway globally, while we've already seen some areas re-initiate lock-downs to varying degrees

If someone tells you they know with certainty where the market is going, and the opinion is taken at face value, I have some ocean front property in Saskatchewan to sell you. The reality is that forecasts are opinions (in some cases not even carefully considered opinions), and even the greatest investors and economists of all time recognize that opinions are fallible. The most recent example which illustrates this was the U.S. jobs report for May where economists predicted a loss of 7.25 million jobs and an unemployment rate of 19% (https://www.marketwatch.com/story/the-biggest-payroll-surprise-in-history-economists-react-to-may-jobs-report-2020-06-05). The actual results? A gain of 2.5 million jobs and an employment rate that actually fell to a still high 13.3%. Although this was a big miss, it isn't without precedent in the annals of forecasting folly. As opposed to relying on opinions, it might be a better option to minimize uncertainty as it relates to planning and investing. The methods to consider with that in mind are using probabilities (which allows for changing one's mind), planning for uncertainty as a feature, and acknowledging that by reducing uncertainty entirely, there is a tradeoff which may not be attractive to your situation.

Legend has it that when asked what the market will do, financier James Peirpont Morgan replied sardonically that "it will fluctuate." Although this isn't confirmed and was possibly in jest, the comment allows for a range of outcomes, which some might see as a cop out, while others see it as realistic. We can use historical evidence to tilt the odds of a certain outcome one way or another, however we can never be sure of those odds being 100%. In the book *Superforecasting: The Art and Science of Prediction* by Philip Tetlock, research shows that the best forecasters provide a range of outcomes with associated probabilities, and are constantly updating forecasts as new information comes available. This allows for the political faux pas of changing one's mind, which in the world of investing is a critical element of success. To some this is viewed as being wrong, while it should be viewed through the lens of process.

Knowing that we can't be certain of an outcome, and that even our best guess should allow for the possibility of being wrong, we can then formulate a plan that solves some of this uncertainty. Other than tolerance for risk, and as mentioned in the second volume of this note titled *It's Working*, time horizon and liquidity needs are the key element of one's plan. If your time horizon is extremely short, then uncertainty isn't your friend, and the idea would be to take no risk whatsoever. In the same vein, if your liquidity needs are high, meaning you are withdrawing income and principle from your plan, then this too should eliminate uncertainty and volatility. Setting aside what is needed to pay yourself via cash flows or simply cash is commonly called a 'cash wedge' in retirement literature. This requires planning for uncertainty in advance, however the peace of mind it provides can't be overstated.

Finally, and likely most challenging given that we're emotional creatures, is to embrace uncertainty and volatility, as a feature of potential higher returns, and as a tradeoff to other risks, as opposed to a risk in and of itself. As noted many times referencing the JPM Morgan Guide to the Markets, which is available to anyone interested, the market falls, on average, double digits every single year, while still providing enviable rolling 5 and 10 year returns. We don't know what any year brings, let alone a decade, however if history is any guide we can see that long-term investors have been richly rewarded for blocking out the noise. The risk of volatility can be eliminated via GICs or similar investments, but it is important to note that this is merely exchanging inflation risk, among other risks, with volatility, as opposed to eliminating risk altogether.

Like most solutions, the best course of action is a simple one: think long-term and acknowledge that nobody knows. Beyond this mindset, it will serve us well to come up with a plan we can stick with, and to view a portfolio as a bond that matures piecemeal when funds are needed. Easier said than done, but this will be a significant help

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

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What I'm Reading: *The Room Where it Happened: A White House Memoir* by John Bolton. The partisanship in politics today is as intense as I can remember, and it seems to be that way even on issues where the majority of people agree. The disparity is similar in scope when comparing the approaches of President Donald Trump and the author, who served as National Security Advisor to Trump for over a year ending in 2019. The often vilified Bolton wrote the book, which needs to be taken into account, but my impression of him was that he took an organized, pragmatic, and thoughtful approach to difficult situations and was well versed in both procedures and history. This was a stark contrast to his description of the President which doesn't come as a surprise given their falling out. This is the fourth book I've read with this cast of characters, and fatigue is starting to set in.

Who I'm Following: Keeping with the theme of nobody knowing, the Financial Times reported that renowned and secretive investor Jim Simons, who founded Renaissance Technologies, posted a decline of 20.7% as of June 12th (https://www.ft.com/content/6bd17811-3205-454e-89e4-953dce6b4dfe). If I were to bet on a resolution to Ren Tech's current short-term draw down, it would be a resolution to the upside, but it goes to show that even the most successful, advanced investors, with mind numbing long-term track records, will have short term challenges.

Market Folly: The proliferation of day traders speculating in risky investments without earnings is evident in the parabolic increase in new accounts from discount brokerages in both the U.S. and Canada. By some accounts, traditionally esoteric investments like futures and options are filling the void left from a lack of sports betting. The reason this is apropos for the 'Market Folly' section, is because when taken to extremes, this behavior has historically led to very bad outcomes for the majority of the participants.

Reason to be Optimistic: According to the New York Times, there are over 135 preclinical vaccines in development, 18 vaccines in phase 1 trials (testing safety and dosage), 12 vaccines in phase 2 trials (expanded safety trials), 4 vaccines in phase 3 trials (large-scale efficacy tests), and 1 vaccine approved for limited use (https://www.nytimes.com/interactive/2020/science/coronavirus-vaccine-tracker.html). My limited understanding suggests that there is still a long way to go, but experts tend to agree that the pace of development is nothing short of remarkable.

Outside the Office: I'm a bachelor for the first time in a long while! Maria and our boys were able to cross the border to enjoy a back yard and a pool which has left me stranded in the great white north. It's an eerie silence relative to the chaos of three little ones and hopefully it won't be long before we're reunited for 14 days of quarantine.

Select Benchmark Returns – June 30, 2020

Asset Class	YTD	1 Year	5 Years	Asset Class	YTD	1 Year	5 Years
S&P/TSX Composite (Canada)	-9.07%	-5.29%	1.29%	CDN Bond Index	7.53%	7.88%	4.2%
S&P 500 (US)	-4.04%	5.39%	8.49%	CDN Short Term Bond Index	4.04%	4.47%	2.12%
MSCI Europe	-12.43%	-6.31%	2.06%	CDN Long Term Bond Index	11.35%	11.96%	6.99%
MSCI Emerging Markets	-9.67%	-3.05%	3.24%	US$/CDN$	-4.69%	-3.97%	-1.75%
MSCI Far East	-7.91%	-0.12%	3.46%	S&P TSX Energy	-30.36%	-24.55%	-6.6%
MSCI World	-5.48%	3.4%	7.5%	S&P TSX Materials	15.37%	24.9%	9.07%

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Source: TD PAIR Price Return, TD Securities