



The House Wins

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

It's a marathon, not a sprint

Moving the Markets:

If it's true that markets climb a wall of worry, there is no shortage at this point: interest rates, inflation, conflict overseas, and Chinese COVID-19 lock-downs are creating a higher than usual barrier

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

Ben Kalenga
Client Service Associate
TD Wealth Private Investment Advice
ben.kalenga@td.com
T: 416-512-7623

It has no doubt been a treacherous year for many investors and savers. Equity investors have seen the worst decline on some indices since World War II, while conservative bond investors have seen a pullback not seen in 40 years. For the first time in a long while, there has been virtually nowhere to hide, as even cash has been whittled away by stubbornly high inflation. This is extremely challenging psychologically, even when longer-term performance numbers are solid, and likely ahead of one's wealth plan. Amidst the doom and gloom, however, there is a silver lining that can be helpful to consider when navigating challenging market episodes. Using a historical lens concludes that long-term investors with a disciplined plan tend to come out of turbulent times unscathed and well positioned for the ensuing uptrend.

The factors that are creating the ongoing volatility are primarily focused on the state of the economy. Inflation is much higher than usual, which puts pressure on consumers, increases the cost of money (interest rates), and forces central bankers to dip into their toolbox in an attempt to bring inflation under control. The reason for inflation is debatable: some would posit that it is their local politician's fault, while others might suggest that money printing to combat the negative effects from COVID-19 is to blame. Not being an economist, I will leave this debate to others who are better suited to the question, however the implications from an investment and planning standpoint are important to consider. Our view is that it is critical to have a plan to deal with any eventuality, and that such a plan should have well defined expectations rooted in historical precedent.

Most of us can agree that volatility is part of successful long-term investment plan. Absent volatility, it is unlikely that returns will be high enough to combat inflation and taxes. Put another way, we should expect volatility, the question then becomes how often, and how much? Using data from Ben Carlson at A Wealth of Common Sense, we can answer this question using different time frames: on a daily basis stocks tend to be higher 54% of the time. On a quarterly basis, stocks tend to be higher 68% of the time, representing slightly better odds relative to daily data. On a yearly basis, stocks tend to be higher 74% of the time, slightly better odds still. Over rolling 5-year periods, stocks are higher a very solid 86% of the time. Stretching this to rolling 20-year periods, we can see that stocks are higher 100% of the time. Turning to depth, JP Morgan data shows that the average annual decline for the S&P 500 going back 1980 is 14%.

The above data suggest that if one has equity exposure in their wealth plan, which is likely for anyone investing over a 5-year time horizon, that volatility is uncomfortable, but normal. Furthermore, if one looks at the 20-year price return of the TSX and S&P 500 at 5.26% and 5.81%, respectively, we should recognize that those returns have come with significant volatility, and multiple double-digit declines. At the risk of being blunt, it would be silly to expect equity-like returns without equity-like volatility.

Coming full circle with the title of this note, investing done properly can create a situation where using a gambling analogy is apropos: in the investing world, the longer one invests, the better the odds of success. This suggests that over time the investor is the casino, rather than the gambler going against the odds.

What the future holds is anyone's guess, and as such most endeavors require a certain degree of faith, which isn't always easy. Having said that, we can see definitively that investors who don't panic during inevitable pullbacks have historically been rewarded. It seems to me that those panicking and adjusting plans on the fly are more akin to the gambler, relative to the patient investor with a long-term focus.

What I'm Reading: *Just Keep Buying: Proven Ways to Save Money and Build Your Wealth* by Nick Maggiulli. You might be able to guess why this is my book of choice at this particular moment in time. Nick takes an evidenced based approach and also a long term lens to look at what history would suggest is prudent from an investment and wealth management standpoint. While I don't believe his approach is for everyone, there is a lot of value in what I would view as his core principles. Namely, the author looks to avoid short-term noise, as time is the critical component of compounding wealth.

Who I'm Following: Tom Lee of Fundstrat Global Advisors (fsinsight.com) notes that sentiment on some levels is more bearish than it has been for over 30 years. This is important on several levels: first, sentiment is a contrarian indicator. This means that when sentiment is negative, history suggests it is a good time to buy. Second, the last 30 years included the 2008 financial meltdown, the early 2000 tech wreck, the COVID crash of 2020, in addition to 9/11. I can't help but think that the current environment isn't as bad as the time periods noted above.

Market Folly: Cathy Wood of ARKK Invest had a strong run of returns on the back of bets she placed on technology companies, which in her view will change the way we live. These innovative disruptors served ARKK well until March of last year before running cold: for scale, their flagship ETF has declined a staggering 60% this year alone. My view is that this niche will become profitable once again in the future, but more importantly highlights the benefits of diversification at the portfolio level, and the risk of unprofitable companies and sector specific investments.

Reason to be Optimistic: Markets are cyclical, and just as day follows night, uptrends typically follow downtrends. Two other points of optimism are that the current decline, as measured by the S&P 500, is in-line with average declines going all the way back to 1980, suggesting that this isn't overly unusual despite the pain. Second, several indicators are at or approaching wash out levels, which typically occur near sustainable bottoms.

Outside the Office: The biggest news outside the office is that I'm back in the office after a long while, which is a welcome change on my end and a big step towards normalcy. In other big news on our end, border restrictions easing will also allow Maria and I to visit our in-laws easier which should make for a fun summer.

Select Benchmark Returns – April 29, 2022

Asset Class	YTD	1 Year	5 Years	Asset Class	YTD	1 Year	5 Years
S&P/TSX Composite (Canada)	-2.17%	8.65%	5.9%	CDN Bond Index	-10.22%	-7.9%	0.57%
S&P 500 (US)	-13.31%	-1.18%	11.63%	CDN Short Term Bond Index	-3.87%	-4.38%	0.85%
MSCI Europe	-13.65%	-8.85%	2.23%	CDN Long Term Bond Index	-18.13%	-12.03%	0.19%
MSCI Emerging Markets	-12.09%	-18.06%	4.69%	US\$/CDN\$	-0.9%	-3.97%	1.32%
MSCI Far East	-14.49%	-15.89%	1.45%	S&P TSX Energy	30.78%	52.50%	4.28%
MSCI World	-12.89%	-3.1%	10.74%	S&P TSX Materials	13.86%	19.04%	8.93%

Source: TD PAIR Price Return, TD Securities

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