# Holyk Doran Wealth Management Group

## Market Update – March 16, 2020

After another historic day in the stock markets, we are again hoping to offer some insight into what we are hearing, seeing, and reading. On Sunday, March 15th, Goldman Sachs held an Investee call attended by 1,500+ companies from around the globe. We have included the key economic takeaways from that call below as well as three charts that we feel are critical to see during times of worry. Our portfolios do not and have not performed the same as you are seeing flash across your screens because of our allocations to diverse asset classes. The coming weeks will no doubt bring more volatility but there is always a timeline and historically, always a return to growth. We are going to be in good position for when the market normalizes.

**Highlights from several discussions and interviews from industry experts:**

• 50% of Americans will contract the virus (150m people) as it's very communicable.1 This is on a par with the common cold (Rhinovirus) of which there are about 200 strains and which the majority of Americans will get 2-4 per year.2

• The virus appears to be concentrated in a band between 30-50 degrees north latitude, meaning that like the common cold and flu, it prefers cold weather. The coming summer in the northern hemisphere should help. This is to say that the virus is likely seasonal.4

• Of those impacted 80% will be early-stage, 15% mid-stage and 5% critical-stage. Early-stage symptoms are like the common cold and mid-stage symptoms are like the flu; these are stay at home for two weeks and rest. 5% will be critical and highly weighted towards the elderly.

• Mortality rate on average of up to 2%, heavily weight towards the elderly and immunocompromised; meaning up to 3m people (150m*.02). In the US about 3m/yr die mostly due to old age and disease, those two being highly correlated (as a percent very few from accidents). There will be significant overlap, so this does not mean 3m new deaths from the virus, it means elderly people dying sooner due to respiratory issues. This may however stress the healthcare system.5

• Global GDP growth rate will be the lowest in 30 years at around 2%.7 8

• There will be economic damage from the virus itself, but the real damage is driven mostly by market psychology. Viruses have been with us forever. Stock markets should fully recover in the 2nd half of the year.9.

• In the past week there has been a conflating of the impact of the virus with the developing oil price war between KSA and Russia. While reduced energy prices are generally good for industrial economies, the US is now a large energy exporter, so there has been a negative impact on the valuation of the domestic energy sector. This will continue for some time as the Russians are attempting to economically squeeze the American shale producers and the Saudi's are caught in the middle and do not want to further cede market share to Russia or the US.

• Technically, the market generally has been looking for a reason to reset after the longest bull market in history

• Many feel that there is very little systemic risk. Systemic risk is the risk that a company or group of companies can impose significant and sustainable economic harm.

• Governments are intervening in the markets to stabilize them, and the private banking sector is very well capitalized. It feels more like 9/11 than it does like 2008.

## Reasons to Sell?

MYTH

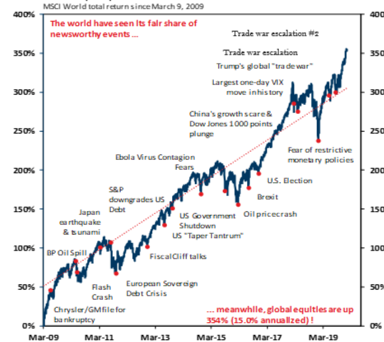
Selling in times of heightened uncertainty can protect investments from heavy losses.

REALITY

Selling in times of heightened uncertainty is generally the best way to ensure heavy losses, as it often rhymes with selling low and missing the rebound.

More importantly, one should keep in mind that the only certainty is that there will always be uncertainty, as it is the price to pay for capital appreciation in the long run.

And – need we add – it isn't in the media's best interest to report the latest news with nuance and historical perspective; better to let fear and pessimism easily set in. However, the chart on the right should act as a reminder that letting emotions take over is a good recipe for short-term gain, but long-term pain.

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## Market Timing in the Long Run

MYTH

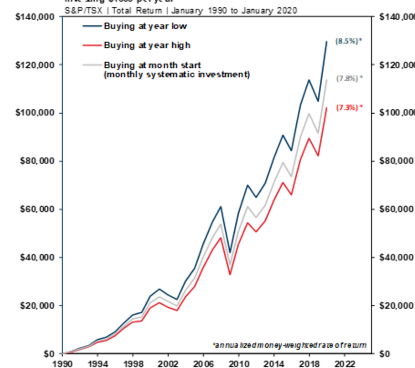
The timing of your annual savings investment is of utmost importance for the well-being of your portfolio in the long run.

REALITY

The timing of your annual savings investment will make a difference in the long run, but it is far from being the critical factor many seem to believe.

Case in point: consider an investor blessed with the power of perfect market timing (blue line) compared to another investor cursed with systematically picking the worst possible day to invest each year, over 30 years (red line). In the end, the market timing champion would have outperformed the most unfortunate of all investors by a mild 1.2%/year. If we take the more realistic example of an investor saving systematically at the beginning of each month, this annual outperformance shrinks to just 0.7%.

How is such a small gap possible? Simply because in the long run, the first year's return is superfluous. What truly matters is the frequency of savings and passage of time, not market timing.

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## Should Investors Fear Recessions?

### MYTH

Investors should be fearful of recessions as they entail heavy financial losses.

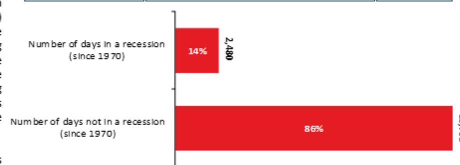
### REALITY

It is true that the most turbulent periods for markets are generally concomitant with recessions. As such, those with eyes riveted on daily stock exchange prices are very likely to experience fear in times of economic downturn.

However, if we step back from market fluctuations and look, rather, at the historical performance of a basic balanced portfolio (60% stocks, 40% bonds) during the last six recessions, we see that the average return was actually zero. Not something to celebrate, but far from the financial catastrophe many seem to believe – especially when we consider returns in the previous and following years. What's more, let's not forget that recessions are relatively rare events, covering only 14% of the last 49 years.

Therefore, it is not the recession that investors should fear, but fear itself… or rather the risk of materializing heavy losses, when in the grip of emotion, at an untimely moment.

| | Balanced portfolio (60/40)* total return | | | |
|---|---|---|---|---|
| Recessions (NBER) | 12-months Before | During Recession | 12-months After | Full period** |
| Nov 1973 - Feb 1975 | 7% | -7% | 12% | 11% |
| Jan 1980 - Jun 1980 | 11% | 9% | 7% | 31% |
| Jul 1981 - Oct 1982 | 9% | 15% | 26% | 57% |
| Jul 1990 - Feb 1991 | 4% | 6% | 9% | 21% |
| Mar 2001 - Oct 2001 | -1% | -5% | -8% | -14% |
| Dec 2007 - May 2009 | 1% | -16% | 9% | -8% |
| **Average** | **5%** | **0%** | **9%** | **16%** |




*60% MSCI World (in CAD) 40% FTSE TMX Bond Universe (FTSE 91-day index for the 1973-1975 recession). **Total return from 12-months before a recession until 12-months after a recession. Recession dates are from the NBER.

We are here to answer any questions or concerns you may have.
Sincerely,

The Holyk Doran Wealth Management Group


**Sources:**

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