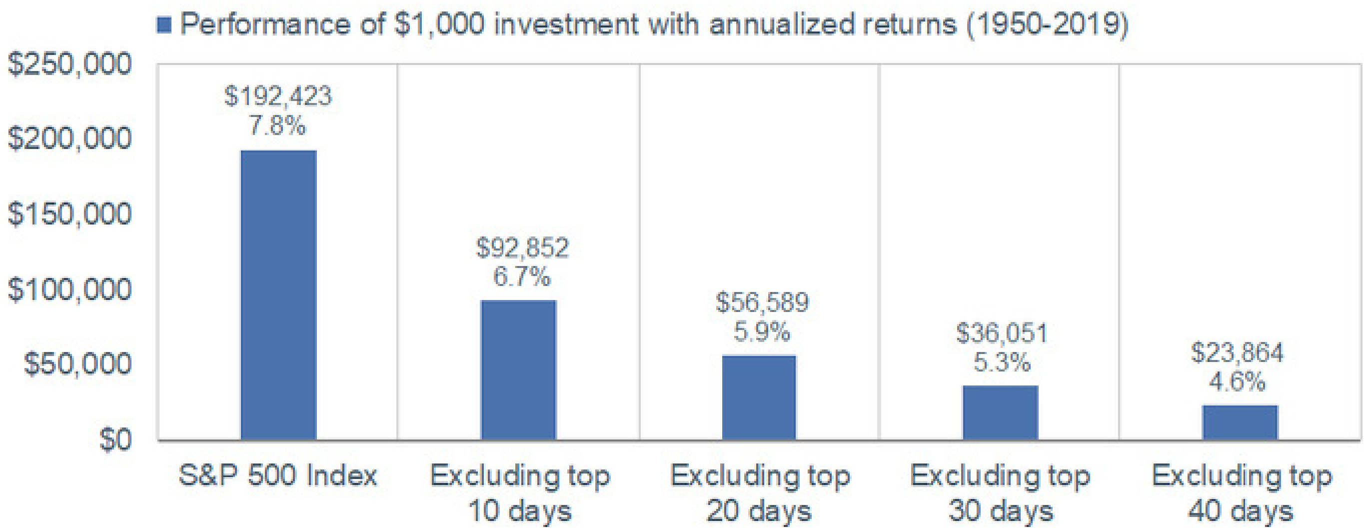
PORTFOLIO DESIGN ADVISORS

In Uncertain Times, Consider the Following…

Equity markets are notoriously volatile. The current outbreak of the COVID-19 virus has been the latest trigger for market volatility, causing declines not seen since the 1987 market crash. As of the time we are writing this, the S&P 500 is down -26% since February 21st as the market grapples with its fear of the unknown. With recession risk rising and an oil trade-war looming, hitting the panic button is a good way to invert the old adage "buy low, sell high". If the market is good at one thing, it is reminding investors that prices do not simply go up, uninterrupted forever. Markets decline. It is an unavoidable part of investing. In fact, this is why your cynical university professor would always say "there is no free lunch". What is particularly interesting about this decline, however, is how quickly investors went from smelling the roses to jumping overboard. In fact, this has been the fastest market decline from a prior peak to down -25% in history. At this point, the market is simply pricing in the "worst case scenario", which it usually does when so many variables remain unknown. However, panic is not an investment strategy. We all know that major drawdowns test investor's fortitude and ability to handle risk. It may be tempting to reduce your equity exposure, in an attempt to side-step this untethered descent. It is times like these that highlight what a wiser man once told me: "Time in the market is more important than timing that market". As the chart below shows, an investor in the S&P 500 index would have had significantly reduced returns if they had missed only a few of the big market up days.



Certainly, the effects of COVID-19 will be felt in the global economy. Several companies have already warned about downside earnings revisions. However, we want to remind investors that when you buy shares in a company, you are buying more than 1 year of earnings. Also, the economy was very healthy at the start of 2020 with low unemployment, low inflation, and slow and steady economic growth. Even if a recession happens, it will likely be short, shallow, and followed by a quick recovery.

PDA wants to prompt investors to not be swayed by reports from the fear inducing personalities they see on TV. Media outlets have no doubt added fuel to the fire as sensational claims makes for better stories.

Admittedly, developing a long-term asset allocation strategy is not the hard part – it is the sticking to it part that becomes a challenge. We want to remind investors that they are just that; investors, and this market decline highlights the importance of diversification as Treasury Bonds have, to some extent, helped offset some of the equity market declines. As we move forward, central banks will likely inject more money into the economy, lower rates, and reduce lending requirements for banks. Equity markets will continue to roil as the effects of the economic slowdown become more clear. However, if we listen to our heads over our hearts and remain disciplined, we can expect calmer waters further down the river, and maybe even get a free lunch along the way.