Using Market Storms to Achieve Long Term Investment Success

Over the course of the past week, a series of rainstorms have hit the west coast, causing most of us to spend our time, when not at work, sheltered inside the comfort of our homes. As the rain intensified yesterday, I looked out my work window and concluded that there was no way I would be able to go for a lunch time walk or even grab a coffee. There was indeed no end in sight to this storm!

Right at that moment, something interesting occurred. Just as the storm was at its peak, blue sky emerged on the horizon and within 15 minutes the clouds broke apart, allowing the sun to make its triumphant return. It turned out that the storm was at its worst just as it was set to end.

Like a late winter storm in Southern California, stock market storms also have a nasty habit of being at their darkest phase right before the dawn. Similar to the storms that lashed the west coast this week, this stock market storm shall pass, the correction WILL END and for those clients that are disciplined, the next phase of market growth will benefit investors for years to come.

Whether you are an institutional investor, a financial advisor or simply a client looking to grow your hard-earned savings, the stock market selloff of the past three weeks has been a difficult period. Like our clients, we have watched our own account values decline as uncertainty over the economic impact of Coronavirus grows. Over the course of the past 17 days, the S&P 500 has declined by 26.9%. When markets panic like that, the best course of action is to take a step back, breathe and allow for the panic to subside. That's what the most successful investors do, and we are willing imitators of the most successful.

The good news is that, like our clients, we are not overly concerned with the daily and weekly mood swings of the stock market because we know that every stock market selloff sets the stage for the next period of growth in the stock market. While the selloff has been unnerving, it should be noted that 84% of the current selloff has taken place over 3 trading days (down 22.69% over three of the worst days)[i].

The point is that as fast as markets panic, is as quick as markets can reverse and reward those investors who are patient, nimble and don't cave into the short-term panic that can distract investors from their long-term investment goals. This pattern has repeated itself throughout history and this time is no different. The stock market will recover, and it will once again hit a new high.

One of the great determinants to long term investment success is how we as clients and investors navigate stock market selloffs. While selling can feel great initially, like a pain killer, it only masks short term pain, often causing long term damage to your portfolio by locking in losses while forcing us to sit out of the recovery. Will we approach the current selloff as a moment of panic or as a moment to buy America's best of breed companies for 30% off? History tells us this is a moment to buy, not to sell.

Since 1941, despite suffering multiple bear markets and stock market corrections, the S&P 500 has enjoyed an annualized total return of 11.29% per year, far in excess of any other liquid asset class available to investors as well as the compounded inflation rate of 3.6%.[ii] The challenge is ignoring the pain that stock market corrections inflict on our accounts and using those price declines to our advantage, <u>**knowing that the stock market has hit a new high after every single sell off.**</u>

According to DALBAR, over the last 20 years, the average investor has realized an annualized return in the stock market of 5.29% while the S&P 500 has grown 7.20% over the same time period. That shortfall in performance is caused by investors that panic during market selloffs then fail to join the recovery. Learn from the mistakes of other investors and stay disciplined.

We don't know if today, Monday, or the week ahead will mark the end of the current stock market correction. Fortunately, like the storms that hit the west coast this week, we know for certain it will end and it will likely end when we are feeling the most pain. The great news is that as of today, we are so proud to report that our clients have remained disciplined, invested and well positioned to benefit from the inevitable stock market recovery. NOW IS THE TIME TO BE OPPORTUNISTIC, NOT FEARFUL.

Source: Bloomberg

Thank you again for all your business but most importantly, your trust. The last few weeks have been challenging for investors across the globe and for families that are concerned over the health of their loved ones. Take comfort in that the stock market has climbed far greater walls of worries in the past such as World War 1, World War 2 and the great Spanish Flu Pandemic of 1918 (see Dow Jones chart above). The good news is that each of these challenging periods merely sowed the seeds for the next stage of long-term growth and this time will be no different.

Disclosures

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[i] Bloomberg covering the period February 24, 2020 to March 12, 2020.
[ii] Bloomberg covering the period January 1, 1941 to March 12, 2020.