MARKET COMMENTARY

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Climbing the Wall of Worry

2018 is coming to a close with most stock markets providing negative returns for the year. Trust me; you're not the only investor wondering not only why you invest but also why your advisor or you are not better at it. When you're in a correction it's not always easy to stick to the "Plan".

I thought I would paraphrase a description of the wall of worry as provided by Investopedia and then show you the returns of the TSX index since I started in the business.

Even when financial markets are growing at a healthy rate, under financially sound circumstances, investors always find reasons to worry.

However, when you get down to the root of the concept of a wall of worry, it ultimately means that a "bull" market is not a peaceful place. When times are good, investors are constantly tense, wondering how long it will last, fretting about the inevitable correction that will bring the positive returns to a stop. As a market continues ascending, the decision can become increasingly agonizing whether to take profit or stay invested.

Market pundits do their part by issuing warnings about everything that could possibly go wrong with the economy, the markets and most leading stocks. And, as always economists can be counted on to give conflicting predictions that arrive at diametrically opposite conclusions from exactly the same data. How an investor chooses to regard the wall of worry often directly correlates to their risk tolerance.

The chart on page 2 of the TSX returns over the last 30 years highlights a number of interesting points;

1. We hear a lot about pending recessions and yet they're not very common. (3 in 32 years and counting). The stock market has predicted five of the last 9 recessions.
2. Nine negative years verses 22 positive years which has generated an overall return of 375% not including dividends over 32 years, an approximate annual return of 11.71%.
3. Only once have we experienced back to back negative years as the recovery from a bad year in 2001 was affected by the World Trade Centre disaster.
4. Upside move over 30 years, a gain from 3160 to 14,820 (11,660 points).
5. Weathering the negatives to benefit from positive years has generated long term returns averaging 12.2% +/-.

S&P/TSX Composite Index (Canada) Yearly Returns					
Year	Beginning Price	Ending Price	Gain or Loss	Percent Gain or Loss	
1988	3160.05	3389.99	229.94	7.28%	
1989	3389.99	3969.79	579.8	17.10%	
1990	3969.79	3256.75	-713.04	-17.96%	July 1990 -
1991	3256.75	3512.36	255.61	7.85%	Mar-1991
1992	3512.36	3350.44	-161.92	-4.61%	
1993	3350.44	4321.43	970.99	28.98%	
1994	4321.43	4213.61	-107.82	-2.50%	
1995	4213.61	4713.54	499.93	11.86%	
1996	4713.54	5927.03	1213.49	25.74%	
1997	5927.03	6699.44	772.41	13.03%	
1998	6699.44	6485.94	-213.5	-3.19%	
1999	6485.94	8413.75	1927.81	29.72%	
2000	8413.75	8933.68	519.93	6.18%	
2001	8933.68	7688.41	-1245.27	-13.94%	Mar 2001 -
2002	7688.41	6614.54	-1073.87	-13.97%	Nov-2002
2003	6614.54	8220.89	1606.35	24.29%	
2004	8220.89	9246.65	1025.76	12.48%	
2005	9246.65	11272.26	2025.61	21.91%	
2006	11272.26	12908.39	1636.13	14.51%	
2007	12908.39	13833.06	924.67	7.16%	
2008	13833.06	8987.7	-4845.36	-35.03%	Dec 2007 -
2009	8987.7	11746.11	2758.41	30.69%	Jun-2009
2010	11746.11	13443.22	1697.11	14.45%	
2011	13443.22	11955.09	-1488.13	-11.07%	
2012	11955.09	12433.53	478.44	4.00%	
2013	12433.53	13621.55	1188.02	9.55%	
2014	13621.55	14632.44	1010.89	7.42%	
2015	14632.44	13009.95	-1622.49	-11.09%	
2016	13009.95	15287.59	2277.64	17.51%	
2017	15287.59	16209.13	921.54	6.03%	
2018	16209.13	(Nov 20, 2018) 14820.44	-1388.69	-8.57%	YTD

14 Recessions Since 1929

3 Recessions Since 1987

9 Negative Years AVG Loss = -12.56%

21 Positive Years AVG Gain = 15.13%

Overall Return - 11660 points

Average Annual Return = 12.26%

Predicting negative years is extremely difficult as depicted by our current situation. Fundamentals of solid economic growth in North America, low interest rates and inflation, fair stock valuations at 14 times forward earnings and yet we hear and see lots of commentary of what can go wrong.

It's easier to maintain your asset allocation and cash holdings to protect from selling during corrections when values are down.

It's never a good idea to stake your reputation on predictions but with the economic and business cycle fundamentals in good shape I don't expect another negative year for the markets in 2019.

All the best to you during the holidays and throughout the upcoming year.

Graham