A MARKET IN RECOVERY!

JUNE | 2022

Graham Burns
Branch Manager,
Senior Wealth Manager
Graham.Burns@raymondjames.ca
778-940-2529

Andrew Gilchrist
Wealth Manager,
Financial Planner
Andrew.Gilchrist@raymondjames.ca
250-980-2474

Clearwater Wealth Management of Raymond James Ltd.
Unit 106 - 810 Clement Ave
Kelowna, BC
V1Y 7C9 CA

Markets have a cycle: As the marker grows, traders begin buying dips. This leads to selling rallies to try and capitalize on short term gains; this selling leads to market declines. The decline continues until investors begin bargain hunting, which forms a bottom on the market's correction. Short covering then starts as sellers lose conviction. Momentum buying enters the market as the uptrend is established which creates a FOMO mentality *(fear of missing out)* and trading volume increases as investors pile in hoping to catch the upward wave. The risk of valuations getting stretched however often leads to higher volatility at this stage. The reward relative to the risk becomes less and a new market top is created only to begin the cycle again.

The challenge for you as an investor, and for us as portfolio advisors, is having the resolve to not act on emotional reactions. The requirement of understanding the appropriate objective for each individual and then constructing their portfolio within their risk constraints to ensure *"fear"* doesn't become an influence on their success is paramount.

It is very important to only invest the appropriate amount in stock and bond markets and then it's equally important to maintain your investments through market corrections *(we call them corrections because they are simply a re-pricing of assets lower as market valuation become too expensive relative to current conditions. If we've done our job right, it's not because we own bad investments)*

DID YOU KNOW.

1. From 1991 to 2021 - if you were out of the market for just 1% of the best upside days your overall return would have been negative versus a six-fold gain if you remained invested.
2. The Toronto Stock Exchange composite index has an average return of 8.4% per year over the last 30 years.
3. 21 of the last 30 years' returns have been positive.
4. There have been several major declines in the last 30 years, averaging 27.51%. The subsequent recoveries have averaged 25.17% in the following year. 10 years later the overall return has averaged 210.83% from the depth of each major correction.

Considering the growth of our economy, our lifestyle, our net worth etc. over the last 30 years it only makes sense that a diversified mix of companies benefiting from that from commerce should have done well and were the best investment opportunity over other asset classes.

The next 30 years will just provide more of the same, only with different opportunities. For investors that's exciting.

"History has showed that after previous bear markets, Canadian equities recovered and resumed their upward trend. This was also seen in 2020-21 with the COVID-19 pandemic, where broad North American markets such as the TSX Composite Index and the S&P 500 initially declined but then recovered to reach all time highs. Investors who sell during bear markets may miss out on significant returns during recovery periods and bull markets"

-TD Asset Management

Markets tend to walk up staircases and go down elevators which makes timing downturns difficult. The average market correction since 1987 has lasted approximately six months and we have them approximately every two years. Bull markets on the other hand average approximately seven years in line with most business cycles.

The current market correction we're experiencing started in the NASDAQ Index last November, migrated into the S&P 500 and then began in our Canadian market in April of this year. The TSX Composite never averaged the lofty valuation multiples of the US Markets and as a result our correction has been shorter and shallower to date.

In summary, portfolios should be built to meet objectives with appropriate asset allocation relative to individual risk parameters. Time in the equity market is very important as we've demonstrated and therefore time horizon of the portfolio is critical. High quality individual positions with broad diversification and then the resolve to believe in the strategy leads to long-term investing success.

As always please let us know if you have any questions or anything we can do!

Graham Burns & Andrew Gilchrist