

High Level Investment Report

Trusted Advice & Peace of Mind

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Just “Bearly!”

In recent discussions with clients, it is evident that the market volatility and uncertainty has some people nervous and maybe a bit confused as to what is causing the market sell-off. I am happy to say that most everyone has been dealing with the last quarters' market turbulence quite well. But to be honest, I know there are some people **just “bearly” hanging in there.** In down markets the media attention becomes aggressive and the infamous “Bear Market” term gets thrown around a lot. So I have decided to dedicate this High Level Investment Report to exactly that, **BEAR MARKETS** and a short **Survival Guide** on what is the best thing we can do as investors to survive them.



So what is a Bear Market?

There really isn't a specific set of characteristics that are 100% agreed upon for defining a Bear Market, but many discuss a **Bear Market as being a 20% correction from a prior market high.** Some require this to occur over a timeframe of a couple months, and others allow the time to stretch longer and focus on simply the decline in value. A Bear Market is different than a **“Correction”, which is usually discussed once there has been a 10% decline in a stock or markets' price,** and typically is a pause in a larger “Bull Market” up move. The downward drop in a market is called a “Bear Market”, because of the way a bear attacks its prey, swiping downward. This is the opposite of how a Bull attacks, thrusting its horns upwards, hence the term Bull Market when markets are rising.

As of Friday December 21st, based on the definitions outline above, we had encountered a Bear Market in one major index - the NASDAQ.

The Nasdaq fell 195 points on the 21st, **which put it 21.9% below its peak on August 29th, 2018.** The Nasdaq is the technology focused index, where **Apple, Amazon and Google each make up 10% of the index, and Facebook is 5% of the total index.**

My article in August discussed **“when is it time to leave the party”**, and **highlighted the risk in these companies at that time because of the overcrowded investing focus towards the FAANG stocks (Facebook, Apple, Amazon, Netflix and Google)**, and their higher valuations. Since then, the decline in these shares has been a major driving force behind the deteriorating market sentiment and the uncertainty with many investors. As I wrote previously, everyone is involved with these companies in their daily lives as leaders in the consumer, technology and social world. To hear on TV that the FAANG'S had lost nearly \$1 trillion in market value over the last few months is cause for “everyday” investor concern.



Trade tariffs, President Donald Trump and the U.S. political divide, European political problems in many countries (such as Italy, France and the upcoming U.K. Brexit), as well as rising interest rates globally have all been ongoing for more than a year, and **are major reasons for a market to decline because of uncertainty.** Yet, it wasn't creating enough concern to cause investors to start selling stocks until recently. **Fear and greed is what drives market sentiment**, and while these larger global issues are the items that make money move around the world

(causing markets to fall when money leaves and markets to rise as money enters), **it takes seeing your Apple or Facebook shares take a 25% nose dive to make you revert to the fetal position as that is when you actually feel some pain personally.** Trade tariffs might “hurt”, but it doesn't cause the individual investor to sell. Losing money causes the average investor to give up and sell out and the large traders to step aside and stop participating in the market, which ultimately removes a lot of the “buyers” in the market.

Turning to the other major markets, **the DOW is 16.3% below its record close of 26,828.39 on October 3, 2018 and the S&P 500 index is now down 17.5% from its high on September 20, 2018. All three major U.S. indexes are down more than 12% in December** as of the 21st of December and heading into the shortened holiday week. Stocks are on pace for the worst December since the Great Depression! **The Toronto Stock Exchange is down 15.9% since reaching its high way back on July 12, 2018.**

The difference in the DOW and S&P 500, as compared to the Nasdaq (which is the one that has entered the bear market first), is important in my view. **If the DOW Jones or the S&P 500 was the index to be falling the hardest, I would have more concern.** But because this is the Nasdaq leading the decline, I am not as concerned looking out past the next 6 months as **the companies that are currently the largest and have fallen the most are not a large component of my clients' portfolios.** With this recent decline, **money is leaving these FAANG companies and looking for alternative places to invest** (this is what happens in market declines and money transitions to the next stock winners) and just maybe investors will begin to look for fundamentals and areas of the market that make sense to invest in rather than just throw money at things that are going up and in vogue, as many people were doing just before the summer months!

To be honest, it sometimes is a struggle to sit at work each day and watch a market move so dramatically, **having no control at all as to what direction it will take.** Yet, my job is to try to make sense of the market movements and invest my clients' money accordingly, trying to keep you out of harms' way to the best extent possible.

As much as I wish it could be done, **no one can force the market to turn back up.** The market recovers when it wants to as it's a big beast, and sometimes has a mind of its own. When the market has tired everyone out, it then lightens up on you and walks away. The bear lets you get back up!



How often do market corrections become Bear Markets?

Moneysense.ca recently published that in the S&P 500, there have been **22 corrections since 1945**, not including the current one, and **12 bear markets**, for a total of 35 major downturns, according to commentary by Sam Stovall, chief investment strategist for CFRA. That works out to corrections becoming bear markets **a little less than 40 percent of the time.**

How long do bear markets last and how deep do they go?

On average he noted that bear markets have lasted 14 months in the period since World War II, while **market corrections lasted on average of five months.** The S&P 500 index has fallen an average of 33 per cent during bear markets in that time. **The biggest decline since 1945 occurred in the 2007-2009 bear market.** **Thinking back to the financial crisis and working through that period with clients, it was a life altering time for most people who had even a dollar invested.** It **made almost all investors risk adverse** and waiting for the “next financial crisis”

to hit. Ten years have passed and every market correction that has occurred is expected to exceed the 2008 market crash, yet **most often the declines like those in 2008 or 1929 do not occur when everyone is trying to predict them.** I believe the same goes for this market now, and that we aren't going to stay down here for too long, **although this may not be fully over just yet.** Outside of some very overvalued tech stocks (that are now not so expensive), there are **many investors licking their chops over some of the investment opportunities that will be presenting themselves in the coming months.**



Survival Guide: How do you deal with a Bear (Market) Attack?

The US National Park Service website gives good advice regarding what to do if you confront a live bear, and depending on the type of bear you come across they propose a different approach.

What was interesting was the following quote where they state that ***“each bear and each experience is unique; there is no single strategy that will work in all situations and that guarantees safety. Most bear encounters end without injury. Following some basic guidelines may help to lessen the threat of danger. Your safety can depend on your ability to calm the bear.”***

I thought this was perfect as it basically sums up the experience of a **bear market** attack as well! Let's start with a few survival tips on what to do during a Bear (market) encounter.



1) As everyone knows, **if you don't sell you haven't lost**. However, sometimes that "saying" keeps people holding on to poor investments waiting for them to recover. **This is not a good strategy!** The better way to think of it is **"if you don't get out of the market, you haven't lost"**. In other words, if you are invested and some investments are not doing well, use the decline in all investments to upgrade the portfolio or shift into other investments that have a better chance of recovery. While you might sell something at a loss, if you reinvest immediately into something more attractive for the recovery, then this is okay and a good strategy. **Selling and moving to cash to wait until things look and feel better is the wrong strategy.** By the time you feel that things are better, the recovery is over. **Sticking to your strategy leaves most people without harm to the portfolio.**

2) Staying Calm is also important during market declines. Technology makes it easy for us to check in on how we are doing with our investments, or allows us to follow a list of stocks on our phone. During a bear market, or just a current strong market correction, **trying not to panic is the best advice**. Many times **we will also be eager to sell out of an investment the moment it starts to recover.** We begin to say to ourselves **"when this market comes back we need to get out of stocks"**. However, if you

think about that strategy, it doesn't make too much sense. **After a sharp decline of 20%, your risk of a big loss has just occurred. The next several years are likely to be up, not down.** The downward market is now in the rear view mirror, so you might as well stay calm and carry on for the recovery **and the least risky moment of the next 2 - 4 years is likely right now.** **Don't be in a rush to sell out your stocks.** You made it through the hardest part during a decline, so you need to stay calm on the recovery.

3) The **U.S. National Park Service** website points to tips on how to deal with a Grizzly Bear/Brown Bear, Black Bear and Polar Bear Attack. For the **Grizzly Bear they say to play dead**, roll on your stomach and cover your neck with your hands. The Grizzly will rough you up a bit, but if you play dead they will lose interest and leave you alone in a couple minutes. The **Black Bear they say to NOT PLAY DEAD**, and to make noise and fight back! The **Polar Bear**...well they say that you shouldn't play dead or fight back because you are prey and they are likely to eat you! **In all cases you don't run away from a Bear!** The **market lesson here is that when investing, you need to have a game plan and when you are approached by a bear market,** you need to have thought about how you are going to deal with the situation at the time and **how you will handle yourself when you encounter one.** **Depending on the type of bear, you need a different plan.**

I would say that the current market is a Grizzly Bear Market, where you should lie down, and play dead and stay calm, and it will walk away soon. The 2008 market decline was a Polar Bear, and possibly the current Nasdaq is a Black Bear, which is going to take some fighting and struggle for those who invested mainly in those companies and weren't diversified.

With all clients, preparing is the hardest part of the job, but the area of your investment strategy I think we have covered the best. I feel with pretty much everyone that we have discussed being prepared and defensive, and I have made sure I never sugar coat or set false expectations that markets will always be great. If you are a hiker in the mountains, you would rarely expect to encounter a bear every time you went on a trail, but you know that there are high odds of it occurring eventually.

I want to end this report here, and wish everyone a Happy New Year!

Markets can be tough and my best survival advice is to “play dead and ignore the Bear”, and it will eventually leave us alone.

Know that I am doing research and reading from multiple outlets from all areas of the market to get a sense of where things are headed and what needs to be done. It's my job to do this for you, and while I know it's easier said than done, please try to not let the market get to you.

During one of my recent client meetings, my client was a bit concerned overall but said **“this must not be a very fun time for you. I am not sure how you are supposed to keep up with all of the different things going on which you can't control?”** I agreed with her that this isn't the most fun, but it is part of the job, and I do love my job.

The funny thing was, just days before I had paid a guy I hired to complete a cabinet and fireplace mantel in my basement development, and he was really proud of the hard work he had done. I was really impressed by the work and knew he had put in a lot of effort. We both stood there very happy with all his efforts.

At that moment in my client conversation it dawned on me about how backwards my profession is and I shared that "In my job, when I am doing the most difficult work of the year, it is usually a time when no one is overly happy, because markets are down, and I can't do anything to change that. But when my clients are the most happy with their investments, I could be doing the least amount of work for them of the year because when markets go up, things are pretty easy!"

It's a bit unfortunate that this is how it is, but I am definitely looking forward to later in 2019 when I don't have to work so hard and markets will be going back up!

As always, please call me if you have concerns or just want to talk out the strategy. I am available.

See you all in 2019!



Take Care,

Ryan Coburn