Gottesman Wealth Advisory BMO Nesbitt Burns

Let's connect

Gottesman Wealth Advisory
BMO Nesbitt Burns

Abe Gottesman, CFA, MBA
Investment Advisor, Portfolio Manager

Victoria Karkar
Administrative Assistant

1 First Canadian Place
38th Floor

M5X 1H3
Tel: 416-359-7721
Toll Free: 1-800-263-2286

www.GottesmanWealthAdvisory.com

Charles Dickens: "It was the best of times, it was the worst of times.."

There are no shortages of topics to talk about after the first 6 months of the year but I thought I would use this forum to focus on a couple of my favorites. The first is the importance of buying and holding as opposed to trying to time the market and the other is how misleading it can be to simply look at the results of an index.

Doing nothing when faced with an apparently novel set of information is often one of the most important decisions an investor can make. It is also one of the hardest things to do. Reacting in an uncertain environment offers a sense of control. But straying from a strategically diversified portfolio plan often does more harm than good. Each of us needs to understand and then get comfortable with the idea that, for example, equity markets can rise or fall by more than 30% in a month; that bonds are unlikely to be the low-volatility asset class that they once were; or, that equity-like returns with cash-like variability simply do not exist.

This year's equity market dynamics once again highlight the potential danger of ill-timed decisions. The S&P 500 fell in dramatic fashion, by nearly 35% between mid-February and late March. The unsettling cascade led many investors to liquidate riskier holdings and pile into cash or cash-like investments throughout the downturn. On March 23rd, however, the market bottomed and then took off like a rocket. This made it difficult to build positions back quickly enough to capture the bounce. Even once the rally started, some "experts" suggested that it had no legs while many rattled investors stayed on the sidelines. In the meantime, the equity market has almost climbed back to flat on the year. And, here's the catch: If your incremental dollar invested in the equity market had missed only the 5 best up days this year, it would still be down by 23%.

Missing the 10 biggest daily price increases has left your investment down by 37% on a year-to-date basis. Timing is hard.

Even after a plan is in place, a well-diversified strategic asset mix is unlikely to place the investor at the top of the performance leaderboard in any given year. There will always be one or more assets that outperform the diversified portfolio. Hindsight is unforgiving. Yet, the diversified portfolio is much more likely to help you keep it in the fairway through time. It removes a lot of the guesswork from of the investment decision-making process.

It is also important to note that reading the newspapers, listening to the radio, or looking up on the Internet to find out how the stock market is doing, can be very misleading because as the saying goes, "it is a market of stock, not a stock market". This is especially true for the first 6 months of this year. For example, the TSX was down 7.5% for the first half of the year and the S&P 500 was down 3.1%. However, "peeling back the onion" reveals that it really matters which stocks an investor owned. For example, through the first 6 months of year, Amazon was up 49%, Shopify was up 138%!!, Netflix was up 41% while United Airlines was down 61%, Royal Caribbean Cruises was down 62% and Boeing was down 43%.

I believe strongly that the antidote for all this volatility is to simply build a well-diversified portfolio of high quality companies and not try to time the market. Stay safe and stay invested!