Johnstone Wealth Management
Market Commentary

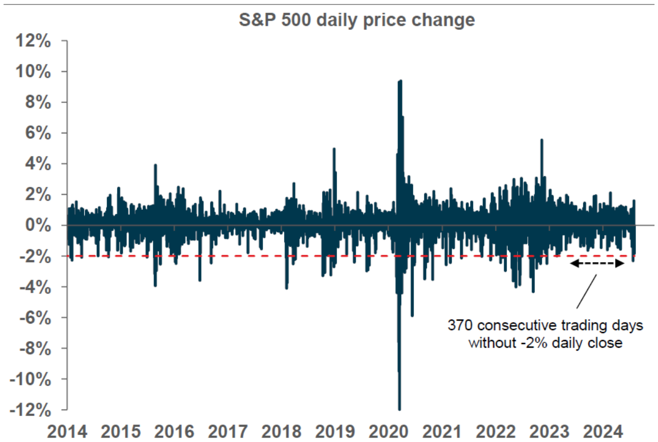
August 6, 2024

As we navigate the ever-changing landscape of the financial markets, we wanted to take a moment to address an important topic: daily market volatility.

It's natural to feel concerned when we see fluctuations in the market on a daily basis. However, it's crucial to remember that these short-term movements are a normal part of investing. Panicking or making hasty decisions based on daily market changes can often lead to suboptimal outcomes.

In any case, it is worth remembering that periods of higher volatility are part of the nature of markets. As an example, since 2014, there have been an average of 9 days with a daily decline of 2% for the S&P 500 per calendar year. We haven't had one in 17 months, the longest period since 2007.

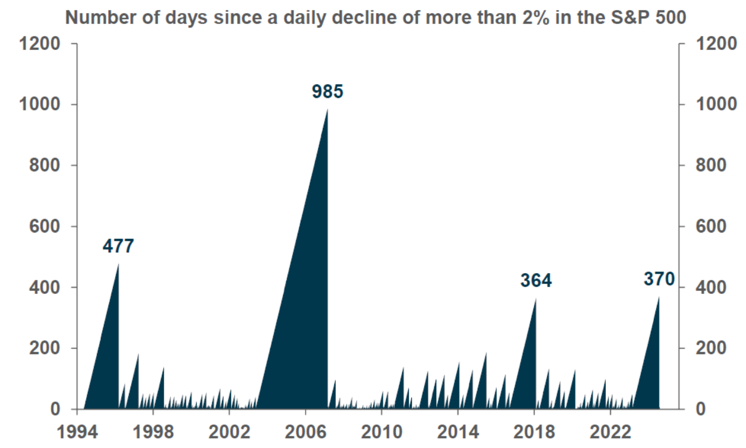
6 | A particularly quiet year and a half...



CIO Office (data via Refinitiv).

.

7 | ... with 370 consecutive days without a 2% loss



CIO Office (data via Refinitiv).

Our focus should remain on our long-term strategy and objectives. The strength of our approach lies in its ability to weather these temporary shifts and capitalize on the underlying trends over time. Our experience and disciplined strategies are designed to help us stay on course, even during periods of uncertainty.

We have outlined some common myths and realities of common investment beliefs below:

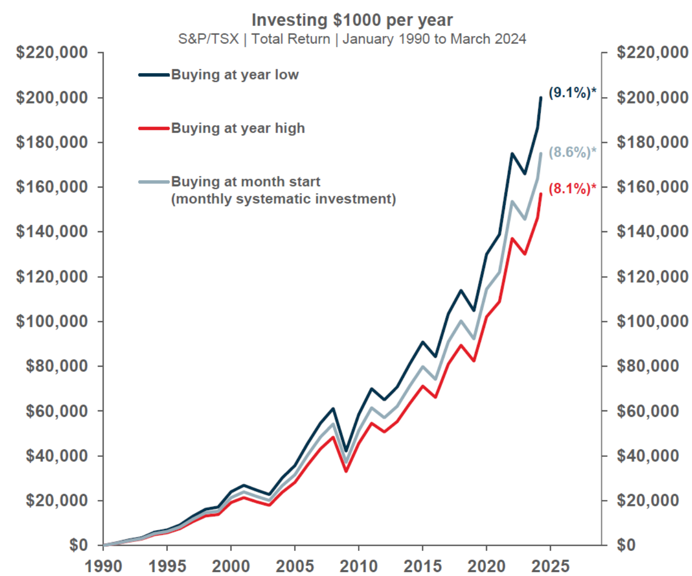
Market Timing in the Long Run:

MYTH: The timing of your annual savings investment is of utmost importance for the well-being of your portfolio in the long run.

REALITY: The timing of your annual savings investment will make a difference in the long run, but it is far from being the critical factor many seem to believe.

Case in point: consider an investor blessed with the power of perfect timing (blue line) compared to another investor cursed with systematically picking the worst possible day to invest each year, over 30 years (red line). In the end, the market timing champion would have outperformed the most unfortunate of all investors by a **mild 1%/year**. If we take the more realistic example of an investor saving systematically at the beginning of each month, this annual outperformance shrinks below 1%.

How is such a small gap possible? Simply because *in the long run, the first year's return is superfluous. What truly matters is the **frequency** of savings and passage of **time**, not market timing.*



*CIO Office (data via Refinitiv) Annualized Money-weighted rate of return.

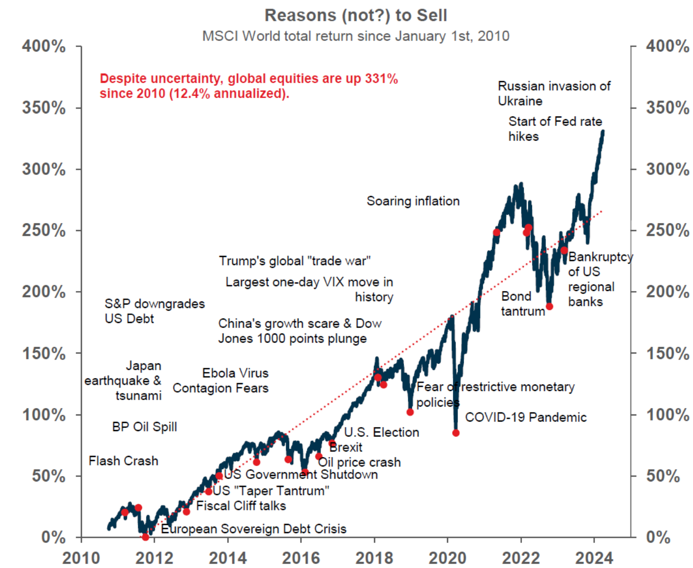
Reasons to Sell:

MYTH: Selling in times of heightened uncertainty can protect investments from heavy losses.

REALITY: Selling in times of heightened uncertainty is generally the best way to ensure heavy losses, as it often rhymes with selling low and missing the rebound.

More importantly, one should keep in mind that *the only certainty is that there will always be uncertainty, as it is the price to pay for capital appreciation in the long run.*

And – need we add – it isn't in the media's best interest to report the latest news with nuance and historical perspective; better to let fear and pessimism easily set in. However, the chart below should act as a reminder that letting emotions take over is a good recipe for short-term gain, but long-term pain.



*CIO Office (data via Refinitiv)

Should Investors Fear Recessions?:

MYTH: Investors should be fearful of recessions, as they entail heavy financial losses.

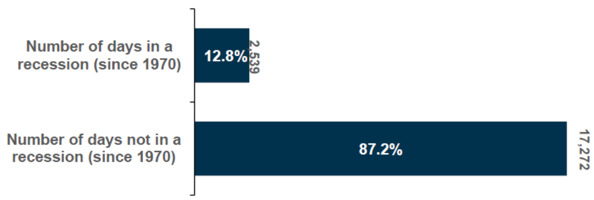
REALITY: It is true that most turbulent periods for markets are generally concomitant with recessions. As such, those with eyes riveted on daily stock market exchange prices are very likely to experience fear in times of economic downturn.

However, if we step back from market fluctuations and look, rather, at the historical performance of a basic balanced portfolio[i] during the last 7 recessions, we see that ***the average return was actually -1%.*** Not something to celebrate, but far from the financial catastrophe many seem to believe – especially when we consider returns in the previous and following years. What's more, let's not forget that recessions are relatively rare events, covering only 13% of the last 53 years.

Therefore, *it is not the recession that investors should fear, but fear itself*… or rather the risk of materializing heavy losses, when in the grip of emotion, at an untimely moment.

Balanced portfolio (60/40)* total return

Recessions (NBER)	12-months Before	During Recession	12-months After	Full period**
Nov 1973 - Feb 1975	7%	-7%	12%	11%
Jan 1980 - Jun 1980	11%	9%	7%	31%
Jul 1981 - Oct 1982	9%	15%	26%	57%
Jul 1990 - Feb 1991	4%	6%	9%	21%
Mar 2001 - Oct 2001	-1%	-5%	-8%	-14%
Dec 2007 - May 2009	1%	-16%	9%	-8%
Feb 2020 - March 2020	16%	-9%	22%	28%
Average	**7%**	**-1%**	**11%**	**18%**



* CIO Office (data via Refinitiv) 60% MSCI World (in CAD) ICE Bofa Broad Canada Universe (FTSE 91-day index for the 1973-1975 recession).
** Total return from 12-months before a recession until 12-months after a recession. Recession dates are from the NBER.

If you have any questions or need to discuss how these fluctuations might impact our plans, please don't hesitate to reach out. Let's continue to stay focused on our long-term goals and maintain our strategic approach.

Contact our team of experts

Jeffrey Johnstone
Senior Wealth Advisor
416-507-9137
jeffrey.johnstone@nbc.ca
Jeffrey Johnstone

Kimberly Wood, CFP®, CIM®
Wealth Advisor
416-869-8210
kimberly.wood@nbc.ca
Kimberly Wood

Kevin Diep
Wealth Associate
416-869-8092
kevin.diep@nbc.ca

Ini Nadar
Wealth Associate
416-869-7686
ini.nadar@nbc.ca

NATIONAL BANK FINANCIAL
WEALTH MANAGEMENT

JOHNSTONE
WEALTH MANAGEMENT GROUP