THE GLOBE AND MAIL

Market volatility does not mean the sky is falling

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Rudyard Kipling’s famous poem “If” starts with “If you can keep your head when all about you are losing theirs…” That is good advice for all of us, but especially investors.

The Covid19 pandemic has mixed health concerns with financial concerns. Unprecedented market drops, continued volatility, stimulus packages, layoffs and the fear of recession or depression is weighing on most people’s minds. The human and health toll is substantial and not one that anyone can, or should, dismiss lightly.

From an investment perspective, redemption activity is picking up pace and will likely continue. Globally, equity funds saw record outflows of $43 billion in the first 2 weeks of March 2020, according to the Financial Times. Flight from equities is typical in these situations. However, investors fleeing investment-grade corporate debt and sovereign bond funds underscores the fear-inducing sell-off in the market. According to market data provided by EPFR Global, mutual funds and ETFs that invest in bonds had $109 billion in outflows for the week ending Wednesday, March 18th. This rush towards cash has exacerbated already volatile markets – and there is no indication that this will change any time soon.

When Q1 statements arrive at investor homes in a few weeks, there will be a rush by many to redeem some or all of their investments. Before investors decide to do so, they should keep a few things in mind:

1. The sky is not falling: investment legend Peter Lynch once observed that most investors sit in excess cash or redeem investments because they fear a doomsday scenario. Lynch argued that the end of the world has been predicted for thousands of years and that the sun has still risen every morning. He also argued that in a doomsday scenario, people will be focused on food and shelter. So, whether you hold stocks or cash is not likely to matter. His advice? Act like the sun will rise tomorrow and invest accordingly.

2. People will still buy stuff: when we get to the other side of the Covid19 crisis – and we will – people will still need food, clothing, shelter, services, etc. As Warren Buffett said in 2012, “Our country's businesses will continue to efficiently deliver goods and services wanted by our citizens.” He also said “In the future the U.S. population will move more goods, consume more food, and require more living space than it does now. People will forever exchange what

they produce for what others produce." So, businesses will continue to exist, continue to produce, continue to employ, and continue to reward investors.

3. Market corrections are natural: in Europe and North America, prescribed burning has been used for over a hundred years to rid a forest of dead leaves, tree limbs, and other debris. This can help prevent a much more destructive wildfire. It also enables the hardier trees to receive more nutrients, water and sunlight so that they may thrive. Joseph Schumpeter, the Austrian economist, coined the term "creative destruction" whereby more nimble, innovative practices displace more complacent ones. After the longest bull market in history, there was bound to be a market correction – of course, it is deeper and faster than anyone anticipated. A dispassionate investor would view the current economic turmoil as shaking out some of the less nimble public companies, reducing over-valuations and directing capital and resources to the best positioned businesses.

4. Don't try and time the market: even the most successful professional investors don't believe in their ability to time the market. Peter Lynch said "When stocks are attractive, you buy them. Sure, they can go lower. I've bought stocks at $12 that went to $2, but then they later went to $30. You just don't know when you can find the bottom."

5. Don't forget your long-term goals: most stock market investors originally invested with a time horizon of 5, 10 or more years. Most would have known that stock markets can and will correct, and sometimes violently, and so they should have invested only those monies that they did not need in the short-term. When the rebound comes, it will come quickly and those who are out of the market, and miss it, will have to dramatically revise their long-term goals.

Yes, the Covid19 crisis is a new crisis – but Canadians, the Canadian economy and Canadian portfolios have experienced and survived world wars, depressions, and pandemics before. There is little reason to believe that this time will be any different. Investors would do well to keep that in mind.