iA Private Wealth™

Royds Report
March 2025

Today's report is all about volatility and our markets.

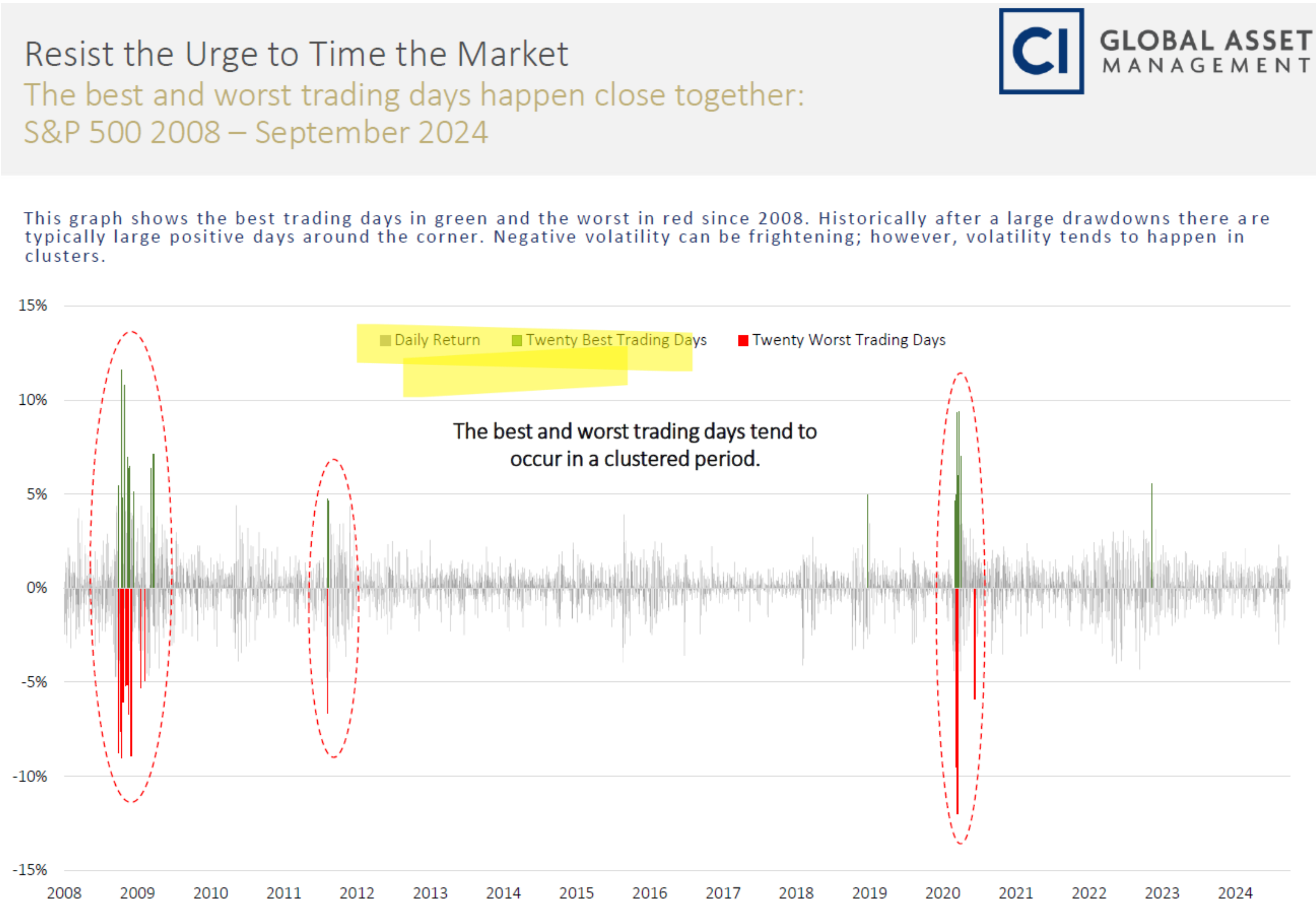
In the Great Financial Crisis of 2007-2009 and during the Covid market meltdown 5 years ago, our office got only a handful of calls from clients wondering if they should sell their investments to go to cash till the turbulence was over, because they were afraid that their investments would fall further or even go to zero. Those were scary times for investors and people in general worldwide. (Of course, you know that markets did not go to zero and in fact went on to lots more new highs in the years after.)

Now the world is facing Trumponomics, tariffs and worldwide political uncertainty. What is the future of Greenland, Gaza, Canada, Nato, Balkan countries etc? The latest Angus Reid survey shows **A)** that 60% of Americans aren't interested in annexing Canada which means that **40% of Americans have some interest in having Canada become part of the US (2% favouring using military force and 6% favouring using political and economic pressure)**, and **B)** that **1 in 10 Canadians would vote to join the US** (21% of Conservatives, and 2%, 3% and 1% of Liberals, NDPs and Bloc Quebecois respectively). To us, that is truly scary. Source: 51st State: Canadian resolve in saying 'no' continues, while a massive gap between Trump & Americans is revealed, (2025, Mar 12), Angus Reid Institute.

Between Feb 19 (the high) and Mar 13, 2025, the S&P 500 fell 10.1%, before quickly recovering to only being down 8.2% the very next day. A market drop 10% or more to qualify at a correction. A correction in itself is nothing of great concern, because **since 1928, markets have fallen over 10% on average more than once per year**. So far what has happened to stock markets falls entirely in the realm of normal volatility. Nonetheless, we have had more calls from worried investors than at any time in Elaine's 28 years as a Senior Wealth Advisor. Why are people who didn't panic over the 49% market drop of Oct 2002 (the Tech Wreck), the 57% crash of Mar 2009 (the Global Financial Crisis) or the 34% drop in Mar 2020 (Covid) all of a sudden sweating over a little 10% drop? We think it's because people are overwhelmed with fear over everything else happening in the world and the threats to Canada's sovereignty and economy. When people are fearful, they feel a need to take action, to do something. Since we can't individually prevent a tariff war or guarantee Canada remains independent, some people turn to adjusting their portfolios. Taking that action is something within their control. We would suggest to you that reviewing your portfolio doesn't hurt, but **altering your portfolio or investment strategy could be detrimental to your financial health**.

We have no idea whether markets will drop a little or a lot further, or whether there could be a development that results in a restoration of market confidence and a complete, quick recovery. No one ever knows what will happen in the short or even medium term on the market. (We only know what has always happened in the past over the long run.) So, what do we do now? Our recommendation is to hold firm, as long as you are holding funds with quality companies and your income matching buckets are filled up appropriately. (Last year when markets were up, we spent a lot of time working with clients to make sure their lower volatility buckets were filled up to accommodate upcoming income requirements. Thank goodness we did not get greedy or overconfident in the market and let our safety reserves sink below planned levels.) If you want to discuss whether you have enough in buckets 1 and 2, according to our plans to support your income stream requirements, call us to set up a time for a review. If you have questions about any of your holdings, call us to review their investment style, holdings and quality. As usual, we will review everyone's portfolios at the end of March and mail out printed copies with our comments or suggestions for changes, if we think we can improve on anything.

Now let's look at some of the reasons why we think you should stand pat, when there is a risk that markets could continue to fall in the face of so much economic and political uncertainty? First, we don't want to be out of the market, because we could well miss the market recovery and market growth beyond that. This could happen for 2 reasons. First, large up market days often happen extremely soon after large market down days, as the following chart shows. (Friday Mar 14 was a recent example of this. After the steep market sell off of the previous few days, there was a fairly significant rebound on the 14th.)



Source: Bloomberg Finance L.P., CI Global Asset Management. S&P 500 TR daily returns in USD, January 1, 2008 – September 30, 2024.

If you get out of the market, you could miss the recovery. Bouncebacks can happen so quickly, that you probably wouldn't have a chance to get back in in time. Secondly, even after a prolonged market rally starts, people are often uncertain if it's a real rally or just a temporary bounce. So, many people stay on the sidelines until long after new market highs are reached. They would have made more money, if they had ridden the market down and just calmly waited for the recovery and new growth after that.

Here are some other charts, like ones you may have seen in Royds Reports of past years, that may give you some helpful insights to weather the super volatile markets, that we are currently experiencing. This first chart shows that markets are seriously down for much shorter periods of time than markets are up, historically, and that market drops are seriously dwarfed by market ups.

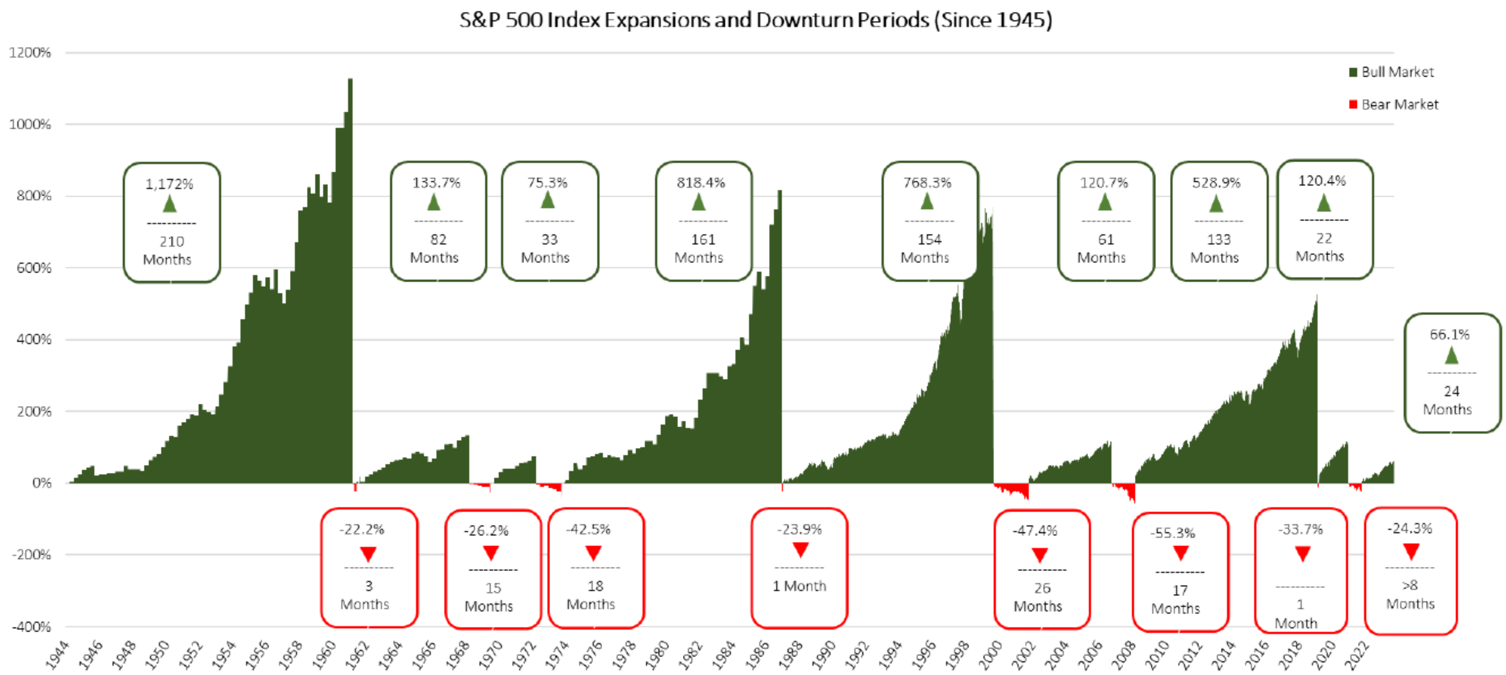
Historical Bull Markets Versus Bear Markets

75+ Years of the S&P 500 Index Expansions & Downturns

CI GLOBAL ASSET MANAGEMENT

A Bear market is defined as a 20% decline or more. Over the past 75 years, bull markets have lasted longer (~9 years on average) than market downturns (1 year on average) and have more than made up for the periodic market decline.

Recessions will happen, they are a normal part of a business cycle, but the stock market and economy will recover. The best strategy is to commit and stay invested over a long-term period to capture the market upside fully. Timing the market exposes investors to potentially missing market rallies over the long term.

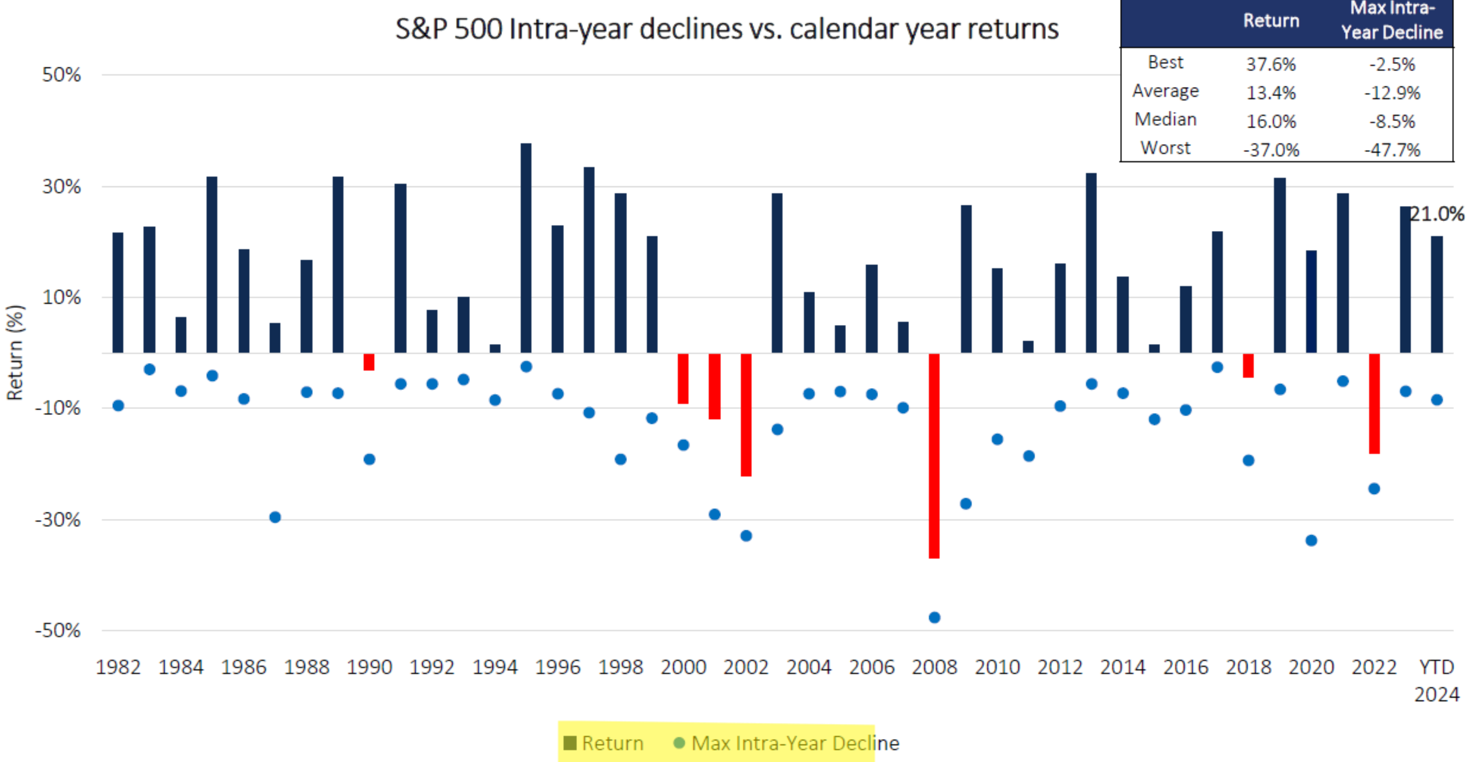


Source: Morningstar Research Inc., CI Global Asset Management. S&P 500 TR USD as of September 30, 2024.

Here are two charts, one showing how there are usually big intra-year market drops, even in years when the market ends up positive, and a second showing how there are almost always geopolitical or economic reasons/excuses for not being invested. (I know this is hard to read, but you might make out things like the Korean War, the Gulf War, the War in Iraq, Covid, 10% unemployment, skyrocketing energy costs, plunging oil prices, Y2K, record debt levels etc. Yet nothing has stopped market growth for too long, and being too scared to be in the market would have resulted in a lot of missed opportunity).

Downside Volatility is Normal

Moderate declines can still result in positive overall outcomes in equity markets. By nature, equity markets are volatile but deliver strong returns in the long run. The chart below shows calendar year returns (blue or red bars) and the maximum intra-year drawdowns (light blue dots). Showing despite large intra-year declines equity markets will on average end with positive results.



	Return	Max Intra-Year Decline
Best	37.6%	-2.5%
Average	13.4%	-12.9%
Median	16.0%	-8.5%
Worst	-37.0%	-47.7%

Source: Morningstar Research Inc, CI Global Asset Management. S&P 500 TR USD. Years 1982-1987 use monthly returns, all years thereafter use daily returns. As of September 30, 2024.

"I DON'T WANT TO INVEST MY MONEY NOW BECAUSE..."

CI GLOBAL ASSET MANAGEMENT

	Year*	DJIA	
1950's	1950	235	Korean War
	1951	269	Excess Profits Tax
	1952	292	U.S. seizes steel mills
	1953	281	USSR explodes hydrogen bomb
	1954	330	Dow tops 300 - "market too high"
	1955	485	Eisenhower has heart attack
	1956	499	Suez Canal crisis
	1957	436	USSR launches Sputnik
	1958	584	Recession
	1959	679	Castro takes over Cuba
1960's	1960	616	USSR downs U-2 spy plane
	1961	731	Berlin Wall erected
	1962	652	Cuban Missile Crisis
	1963	763	JFK assassinated
	1964	874	Gulf of Tonkin Incident
	1965	969	Civil rights marches
	1966	786	Vietnam War escalates
	1967	905	Newark race riots
	1968	944	USS Pueblo seized - "market too high"
	1969	800	Money tightens, market falls
1970's	1970	839	Conflict spreads to Cambodia
	1971	890	Wage & price freeze
	1972	1020	Largest trade deficit in U.S. history
	1973	851	Energy crisis
	1974	616	Steepest market drop in 40 years
	1975	852	Clouded economic prospects
	1976	1005	Economy slowly recovers
	1977	830	Market slumps
	1978	805	Interest rates rise
	1979	839	Oil skyrockets, 10%+ unemployment
1980's	1980	964	Interest rates hit all-time high
	1981	875	Deep recession begins, Reagan shot
	1982	1,047	Worst recession in 40 years, debt crisis
	1983	1,259	Market hits record - "market too high"
	1984	1,212	Record U.S. federal deficits
	1985	1,547	Economic growth slows
	1986	1,896	Dow nears 2000 - "market too high"
	1987	1,939	The Crash - Black Monday
	1988	2,169	Fear of recession
	1989	2,753	Junk bond collapse
1990's	1990	2,634	Gulf War, worst market decline in 16 years
	1991	3,169	Recession, "market too high"
	1992	3,301	Elections, market flat
	1993	3,754	Businesses continue restructuring
	1994	3,834	Interest rates are going up
	1995	5,117	"The market is too high"
	1996	6,448	Fear of inflation
	1997	7,908	"Irrational Exuberance"
	1998	9,374	Asia Crisis
	1999	11,497	Y2K

	Year*	DJIA	
2000's	2000	10,787	Technology Correction
	2001	10,021	Recession, World Trade Center attack
	2002	8,342	Corporate Accounting Scandals
	2003	10,454	War in Iraq
	2004	10,783	U.S. has massive trade and budget deficits
	2005	10,718	Record oil & gas prices
	2006	12,463	Housing bubble bursts
	2007	13,265	Sub-prime mortgage crisis
	2008	8776	Banking and credit crisis
	2009	10,428	Recession, "credit crunch"
2010's	2010	11,578	Sovereign debt crisis
	2011	12,218	Eurozone crisis
	2012	13,104	U.S. fiscal cliff
	2013	16,577	Federal Reserve to "taper" stimulus
	2014	17,823	Oil prices plunge
	2015	17,425	Chinese stock market sell-off
	2016	19,763	Brexit, U.S. presidential election
	2017	24,719	Stocks at record highs; bitcoin mania
	2018	23,327	Trade wars, rising interest rates
	2019	28,538	Trade war escalation, stocks at record highs
2020's	2020	30,606	COVID-19 crisis and recession
	2021	36,338	Decades high inflation
	2022	33,147	Aggressive rate hiking cycle
	2023	37,690	U.S. regional banking crisis

Source: DJIA – Dow Jones Industrial Average * Dec. 31 close

DOW JONES INDUSTRIAL AVERAGE: 1950 - 2023

Source: Bloomberg Finance L.P.

Let's stay on track and not panic. Maybe there will even be a great buying opportunity when you can invest more into the market at even cheaper prices. I've attached a Fidelity document about keeping calm and what to do in scary market times like these.

Don't stay quiet at home losing sleep. Call us and talk about your portfolio, if you are worried about markets. Just remember to differentiate your market concerns from your political concerns.

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