Family Wealth Counsel Advisory Group | RAYMOND JAMES®

Second Quarter Market Commentary July 7, 2022

There has been a lot in the news lately about the turbulent times we are living through describing it as a generation defining moment; global economic shutdown, high inflation and military conflict. With every major equity market down year to date including the bond market, there is no place to hide.

Following two years of exceptionally good market performance, in November and December of 2021 we reduced our exposure to long-duration growth companies and placed greater emphasis on companies with more reliable free cash flows. This positioning may be best described as a “move to the middle,” without a strong bias to growth or value companies, but to those with steady, sustainable prospects for share price appreciation and dividend increases that take into account various economic outlooks including the likelihood of a recession.

We recognize that these periods of market turbulence are difficult and can illicit feelings of nervousness and fear. It is therefore important that we keep things in proper perspective. Since drawdowns occur regularly in equity markets, here are a few statistics that might help.

Over the past 20 years, the S&P/TSX has had 5 negative years and 15 plus years with each of the plus years experiencing a drawdown averaging 11.3% (range -4% to -37%). During the same time period, the S&P500 has shown similar performance with 3 negative years and 17 plus years with each of the plus years experiencing a drawdown averaging 11.8% (range -4% to -28%). You might remember this 20-year period, which consisted of the Dot-com bubble and subsequent burst, the 911 terrorist attacks, the 2008 financial crisis, the annexation of Crimea in 2014, and the COVID-19 pandemic. Each of these events caused a major market drawdown and each time the market recovered.

Despite the occurrence of the negative years and these regular drawdowns, the S&P/TSX has averaged 7.4% and the S&P500 11.7%, **excluding dividends**.

Although things are different today than they were in the past, we can be comforted by the fact that, as history has demonstrated markets will go through negative cycles but will eventually turnaround and long term rates will revert to the norm of positive performance. It may take a little longer than some of the past negative cycles noted above but we are confident that the bull market will eventually resume.

So what are the key take-a-ways here when it comes in investing and what is the best way to handle the volatility at the moment? Remember the principals of investment, the seven B’s, which we embrace and employ to create long-term wealth creation.

- Be patient (3-5 year minimum investment horizon)
- Be aware of and remember your tolerance and capacity for risk
- Be realistic about your investment objectives
- Be smart and have sufficient cash reserves on hand to cover the expected and the unexpected
- Be prudent and re-balance the asset mix of cash, bonds and stocks to match your investment objectives and to take advantage of market cycles.
- Be willing to replace previous winners and losers to own the new leaders (a valuation re-set from a market correction like this always provides that opportunity)
- Be sensible. Always own great companies that pay dividends

The central banks cannot control China lockdowns, Saudi drilling, Texas drilling, quarantines, refining capacity, or war – so really they are swinging a pretty blunt object of monetary policy to try to dampen the demand side of the equation. How long it takes to return to a normal level of inflation, no one can say for certain. That said, we do know that it pays to be invested, and we should avoid temptations to time the market. Missing even just 5 days of the best market days can greatly reduce your long-term performance. Generally, bear markets do not normally last as long as bull markets, and given the dividend and interest income that is generated by our portfolios, we are paid to wait through these temporary swoons.

Our team meets every Monday and Thursday, to share our ideas and insights on the markets. As we always do at these meetings, we have been assessing the current risk to our portfolio holdings and determining how things should be adjusted. Although many of the holdings are down from their previous highs most are still providing long-term positive performance. We continue to have confidence in the quality of the companies that we own, our sector allocations, and the well-diversified nature of our portfolios. We note that our models while slightly negative year to date are still providing positive 3 and 5 year annual returns of approx. 5%. Despite what the news may sensationalize, be comforted that your portfolios continue to have long-term positive market performance despite this most recent correction.

These are difficult times in the world and in global markets. We remind you we are always here to discuss your concerns and fears. Again, we thank you for your trust and want you to know that we are here each morning staying tuned-in to our news and research channels, perusing portfolios and trying to find areas where we can reduce risk and help to create long-term value in the future.

Please reach out should you have any questions or concerns about your portfolio or on any other matters you wish to discuss.

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Helping families manage the complexities of life's transitions.

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