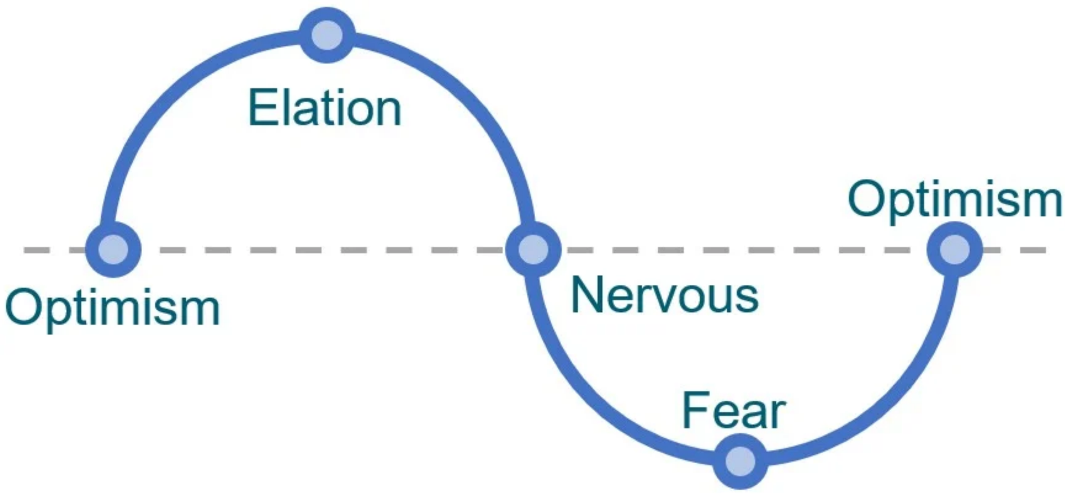
Making Sense of the First Half of 2020 and Your Investments

July 22, 2020

Did you know that you need to count to 1,000 before finding the letter “a” in a number, spelled-out?
I won’t waste time re-capping what’s gone on in the world the past few months – I’m sure you are well aware. On the investment side of things, the first quarter of 2020 was the ninth-worst quarter in the history of the US stock market. The second quarter was the ninth-best quarter in history. If we exclude the Great Depression, these quarters become the fourth-worst and fifth-best, respectively1.
While we’re not quite back to mid-February levels, investors that remained committed to their portfolio and investment strategies, have made up the majority of the losses sustained in February and March.
So, what’s next? As always, we are not going to be the ones to make that prediction. We have never had any evidence to believe that we, or anyone for that matter, can deliver reliable and actionable forecasting of investment markets. Nevertheless, we are all curious, so perhaps a major asset manager like Blackrock could shed some light on the future. Let’s see, Blackrock’s guidance indicates that there is “equal reasons for caution and optimism2.” …No kidding, huh?

Rather than attempting to predict the next short-term boom or bust, let us remember that investment markets represent the collective expectation of economic production in the future. While the world can feel dire or unpleasant today, this feeling should not be allowed to color over the idea that companies and industries will probably continue to innovate and produce goods and services that will be consumed by billions in the long-term – thus leading to economic expansion and gains for investors.

If 2020 has taught us anything, it is that investing is not about mastering how markets can be gamed or beaten; it is about how we are able to control our own behavior and emotions when investing.
We have shared this graphic before, but it’s worth a revisit:



Being a successful investor who employs markets as a tool in accomplishing financial goals is an endless battle with self-control. Similar to what you might have first guessed about the elusive “a” in our numbering system, the initial assumptions and attitudes we make about investing are often off-target until we take the time to think them through. As such, we continue to remind you of the evidence on how to persistently participate in markets. We also continue to endorse the allocation of your wealth appropriately (for you) between the higher-risk, higher-expected-return assets, and the shelter of more stable, but likely lower-returning holdings. Part of successfully executing an appropriate allocation is the rebalancing of portfolios after periods of large gains or losses. When performed correctly, this allows us to buy low and sell high, which is what we have been able to do for most of our clients over the past several months.

In this context, perhaps our trivial pursuit is not so disconnected after all. We believe markets are highly likely to deliver inflation-busting returns to those who can patiently “count to a thousand” while riding out the inevitable downturns. We also know investment success can take longer than you might think – potentially much longer. There is an analogy here that has to do with a turtle and a rabbit, but I’ll spare you details.

Once again, we appeal to the financial planning process many of you have gone through. In these plans we account for market declines. We expect them. For better or worse, periods of volatility and loss are the cost of admission when it comes to investing. However, we are confident in our clients’ ability to achieve their financial goals despite inevitable losses from time to time. What would cause us to lose confidence is missing out on the growth and income if they were to flee markets in times of uncertainty. If you find yourself nervous, lets revisit your financial plan so that we can all get a better understanding of what a decline means in the context of your specific goals.

If you aren't already working with Ferguson-Johnson Wealth Management, we'd be happy to have a chat and learn about your needs and figure out how we can help. Give us a call or send us a quesiton here. Not sure you're ready to interview an advisor? Download our guide below to be prepared when you pick up the phone.

1 Source: Morningstar, S&P 500 data from 1/1/1926 to 6/30/2020.
2 DeSpirito, Tony. Blackrock. "Taking stock: Q3 equity market outlook" 6/26/2020
https://www.blackrock.com/us/individual/insights/taking-stock-quarterly-outlook.