Market Outlook

Sabu Varghese
Portfolio Manager
Phone: (416) 499-1555
sabu.varghese@raymondjames.ca

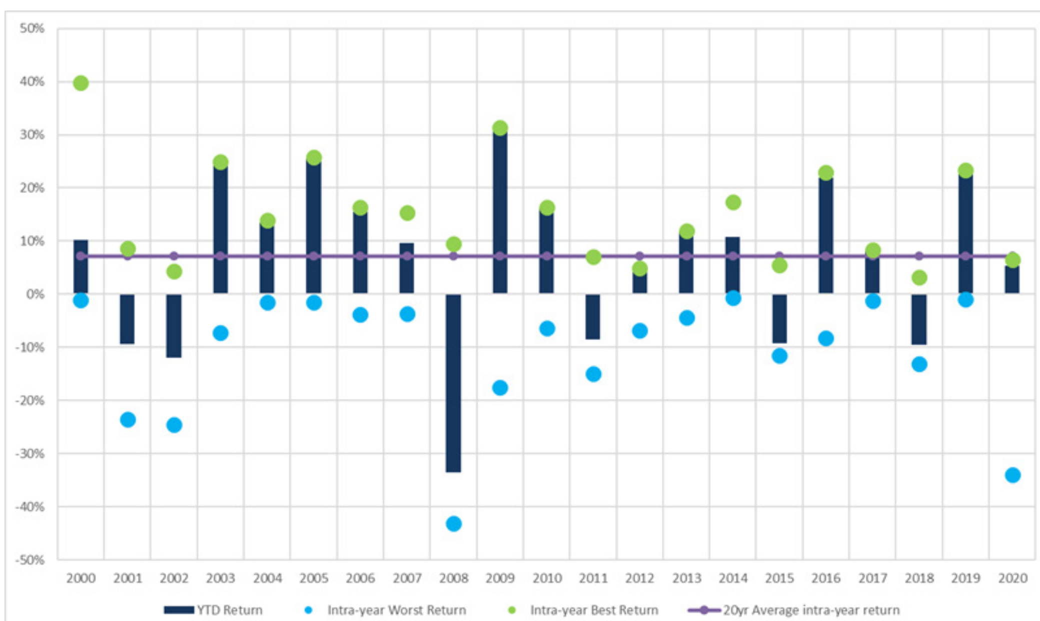
Average Vs Range

In the financial industry, average rate of return is a powerful tool in many respects. Even though, these numbers give us the comfort in the long term, investors are nervous due to market fluctuations. To get an average return, we may need to be part of the ups and downs, but the 'range' determines the comfort.

'Range' indicates how widely spread out the most extreme observations are. It's scary many times. Our memory is truly short, so let us go back to last year's numbers. The pandemic and its impact on the market gives us a classic example to understand the concept well. Imagine you invested $100,000 on January 1, 2020 in Canadian S&P TSX 60 index portfolios, it may be up 6%, just before the market crash, that means value of the portfolio may be close to $106,000 by February 20, 2020. Just after that, the market dropped 35% from the start. Investments would have dropped to $65,000. To recoup that loss, the portfolio must make 53% return. The recovery was much faster in 2020, total return was 5.5% and the portfolio would be worth $105,500 by the yearend, including dividend.

At the first anniversary of the COVID-19 and the market saga, I would like to bring to your attention the market fluctuations for the last two decades. The chart below, paints the picture very well, the best, worst and actual yearly return for the last two decades. The straight line represents the average return for the 20 years.

Chart 1: Intra-year Best, Worst, Calendar year and Average S&P/TSX Total Return Index for 20 years



Source: Raymond James Ltd, based on the S&P/TSX Composite Total Return Index.

SV Wealth Management
Raymond James Ltd.

8500 Leslie St, Suite #450
Markham , Ontario,
L3T 7M8

www.AllinOnePortfolio.ca

In the history books, S&PTSX 60 index average return was 5.5% and historical average return for last 20 years is 7%. Some of the facts that sales pitches may not include: yearly high was 6 % and the worst was 35%, actual intra-year range was close to 41% (from the high to low) – sometimes we try to ignore the facts and focus too much on the average return. In reality, it's a painful and scary scenario, many times, investors may not be able to accept it emotionally or financially. Market fluctuation and performance numbers have a continuous pattern for the long term: it's not a straight line. No Pain No Gain!!!

Points to Ponder

Long term investments in equities make sense, but it may be difficult and painful to hold during any in the short-term. If we can reduce the range, our emotional rollercoaster is more acceptable and manageable. Y2K, September 11, Gulf War, financial crisis in 2008, pandemic, all reminded us one thing: Range is the scary part in investing.

Through active management and proper asset allocation, we can manage the 'range' and the 'average'. Preparedness and confident decisions during the difficult time would enable us to navigate through those rough paths.

Market update

Talks about yield curve, economy reopening and pend up demand is dominating the market for the last few weeks. Relocation of people (from home to workplace) and reallocation of capital is happening. Naturally, sector rotation is part of the game; old economy is coming back, and new economy is providing enough space to accommodate the change. Canadian market will benefit from the new trend due to heavy weightage in financials, materials, mining, energy etc.

When interest rates move up, it is negative for fixed income prices, but it may increase flows into fixed income investments. The inflation numbers will play a wild card in the near future; how far, how fast will determine the 'range' in the coming days.

Equity	As on Mar 1,2021	YTD %
S&P/TSX	18,060	3.60
S&P 500	3,811	1.47
DJIA	30,932	1.06
NASDAQ	13,192	2.36