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TOUCHSTONE Update

Richmond | Goodman Wealth Management

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The Gales of November

As it is often the case we tend to update you more frequently when the going gets tough and the financial news pundits become hysterical, irrational and unbalanced. When this happens, we remind ourselves…

“A lot of other people are trying to be brilliant and we are just trying to stay rational. And it’s a big advantage.” – Charlie Munger

No doubt that the last two months have been difficult for everyone that invests money. But difficult periods are not something unique to investing. Markets simply do not go up in a straight line. As recently as this past winter, there was a sharp decline, they happen almost every year and will going forward. Many times these are rapid declines and very hard to sidestep in short order. In 2008 we also started off the market decline in lockstep with the market despite high cash, but very soon showed our mettle. At the very beginning of significant corrections, we may look much like the market and sometimes a little bit weaker. But it is what happens next that has led to our top ranking by third party Mercer Consulting in the past. We see nothing different now than in prior periods to change that view.

If there was to be a recap of the year for our strategies, written today, it would likely be the following:

USA:

Risk (as we measure it) was high from the very beginning of the year and because of that we held a higher cash level. Despite that, our North American strategy beat the benchmark up until October. So our absolute and risk adjusted return was strong. The October decline in this strategy took that advantage away. Cash weight remains high and we hope to use that to take advantage of opportunities or if market decline continues we expect to have significant outperformance and superior risk adjusted return.

Canada:

We have outperformed by a wide margin both on absolute terms and risk adjusted returns. We also maintain a high cash weight to take advantage of opportunities.

Timing the market is impossible. The best we can do is identify ‘turning points’ where we change from playing offence to defense and vice versa. We can do so by managing the “cash” weight and other disciplines: which we are doing.

It is exactly this type of market that we thrive in. It may take a few weeks/months for this to establish itself but it is hard to argue with having raised cash of late. It is this same cash that we hope to be the wind in our sails going forward, whether it be defensive or opportunistic.

As you have heard from countless newsletters, commentators, pundits, and incredibly successful investors, we are in unchartered territory with trade wars, deficits in boom times, raising rates, a very different White House, and other factors all mixing together at the same time. This has riled the markets and created a lot of noise and volatility - and as with any time period - we (and others) adjust to the new reality. We are in that transition now it seems. We have confidence that the same methods that worked for us in 2007, 2008, 2011, and 2015 will work to our favour once again.

Finally, the focus of our efforts always has to be, reaching our clients' goals. Specifically, when the market benchmarks turn negative (as they have this year) – our 12 month rolling goal shifts to diligently preserving our clients' hard-earned capital. Our strategies are working. We are just trying to stay rational. As always, we are happy to receive constructive feedback or discuss in person if needed.

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