
Public Service Warning: Don't Time the Market

Written by: John Petrides
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The S&P 500 just hit a record! However, it's not one to celebrate. The market had its fastest 10% correction ever! It took just six days to turn investor sentiment from being risk-on to risk-off. Since August of 2019, the market's rise could either be viewed as impressive or ostrich-like.

Stocks ran up in the face of: an inverted yield curve, an overnight shut down of 5% of the world's oil reserves, a tightening of liquidity in the overnight lending market, military conflict between the U.S. and Iran, an impeachment of the President, and a back-and-forth headline fiesta over trade negotiations between the U.S. and China. Yet the market rallied, riding the coat tails of large cap growth tech stocks.

As Warren Buffet would say, the “margin of safety” for further upside for the S&P 500 got a little too thin, too fast, so any new incremental uncertainty put on investors plates could be met with volatility. Enter coronavirus (COVID-19).

We’ve Seen This Before

Investors have experienced health scares in the past: SARS in 2003, Swine Flu in 2009, MERS in 2012, Ebola in 2013/2014, and Zika in 2016, so a negative reaction for stocks to an outbreak is not entirely new. Investors are hoping that the end result for the coronavirus follows a similar pattern to past health scares: that the outbreak is eventually contained, and everyday (economic) life goes back to work. When the coronavirus went public and the outbreak parabolic in Wuhan, China, in January, the country essentially “shut down” entering its New Year. U.S. and Developed markets sat in a wait-and-see mode if the virus would spread. Investors were also probably distracted by earnings season in January and early February, which once again, continued to be better than Wall Street analyst expectations. However, in mid-February, cases of the virus spread to outside mainland China and into Japan, South Korea, Italy and now the U.S. Fears of contagion spreading across the globe has ripped through the stock market, and selling-begot-selling, as more and more countries and companies have reacted by shutting down travel and issuing lower future profit-guidance.

How Impacted Will the Data Be?

From an economic and earnings standpoint, expect the data from the next few months to most likely be messy and confusing. The market is trying to price in what impact the threat of the coronavirus is going have on the economy and future cash flows of companies. This could be a problem for investors.

At the moment, we do not know what the future holds, but assuming the virus is contained, how does one interpret the upcoming macroeconomic data and earnings guidance? Global central banks and investors will have a challenging time parceling through what could be an actual global economic slowdown vs what is coronavirus-induced slowdown, in determining how aggressive they should be with monetary policy actions.

Consensus estimates for macroeconomic and company earnings will start moving all over the map. Analysts will try their best to handicap the results.

So the question becomes, how serious does the market take the reported data? Will investors read through understanding the impact of the virus, or will it extrapolate the data as the economy actually slowing down?

This will keep volatility elevated for a while within the stock market.

Understand Your Investment Time Horizon Rather Than Try to “Time” the Market

We have no idea how far the virus will spread and what the total economic and social impact will ultimately be. We do know that volatility is back for equity investors. Control what you can control. Do not let your emotions drive your decision-making process when it comes to your portfolio. The market selloff is a great opportunity to understand what your risk tolerance is, and acts as a litmus test of how diversified your portfolio is.

The below chart shows that when investors get scared out of the market because of a volatility event and subsequently try to time when to go back in (“I’ll get back in when I feel better and see stocks rising again”), they have consistently jeopardized their ability to build generational wealth. Without a crystal ball, investors averaged 5.6% annualized returns over time by staying invested and riding out the market selloffs. By being out of the market on the 60 best days, investor returns were a -7.4%. That is a 13% annualized relative performance swing that could determine the outcome of the financial legacy for your generational wealth plan.



Timing the Market? — Don’t

Returns of the S&P 500 Total Return Index

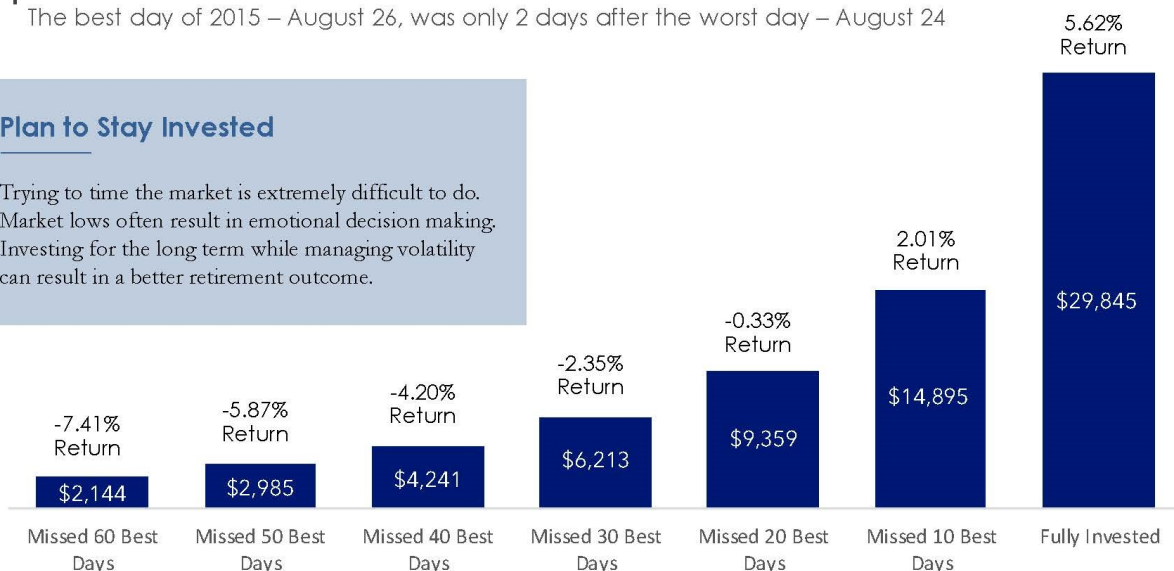
Performance of a \$10,000 investment between January 4, 1999 and December 31, 2018

Six of the 10 best days occurred within two weeks of the 10 worst days...

The best day of 2015 – August 26, was only 2 days after the worst day – August 24

Plan to Stay Invested

Trying to time the market is extremely difficult to do. Market lows often result in emotional decision making. Investing for the long term while managing volatility can result in a better retirement outcome.



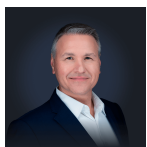
Active Management Matters

There is no shame in admitting that volatility in the stock market may be too much handle. However, it may also mean you need to diversify your asset base to temper the ride.

We are here to help you steer through this market storm, answer any questions you may have to the best of our ability, and provide our thoughts and analysis on your entire portfolio diversification strategy.

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John Petrides joined Tocqueville Asset Management L.P. in 2019 as a Portfolio Manager within the Fields Team. Prior to joining Tocqueville, Mr. Petrides was a Managing Director and Portfolio Manager with Point View Wealth Management, Inc. and a Portfolio Manager with Advisors Capital Management, LLC. Mr. Petrides began his career with Bear Stearns Asset Management, becoming an Equity Analyst on the Large Cap Value team. Mr. Petrides is a regular guest on several financial news networks for his market insights and analysis.

Mr. Petrides received his M.B.A. from Pace University School of Business in 2005, and his B.A. from

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