August 2022 Financial Planning Email Update

Last month I mentioned the mutual fund legend Sir John Templeton. He is the one who first coined the expression “The best time to invest is when you have the money”. Like Warren Buffett, Sir John believed that it’s not timing the market but time in the market that generates solid investment returns. If you stay invested you will eventually harness what Albert Einstein called the greatest force on earth: the power of compound interest. The problem is that stock markets fluctuate. To borrow from another legend, Wall Street’s Nick Murray, “you don’t want to be out of the market when it flucs up”. For a current period example I asked the analysts at Mackenzie Investments to assist by demonstrating what a hypothetical $5,000 per year investment for the past 20 years would yield if invested at the best time each year (when the purchase price is the lowest) and the worst time of the year (when the purchase price is the highest). They used the data from the highly recommended Mackenzie Canadian Growth Balanced A Series Fund for the period from July 2002 to June 2022. $5,000 per year for 20 years is a total of $100,000 invested. When this hypothetical investor invested each year at the best possible time (at the lowest price) the investment grew to $222,955.02 for an annual compounded rate of return of 8.2733%. This investor would have had a crystal ball which worked very well as in reality no one would be able to time the market exactly for 20 years in a row. If this hypothetical investor invested each year at the worst possible time (at the highest price) the investment grew to $211,779.26 for an annual compounded rate of return of 7.8046%. We may consider that this investor just had very bad luck with market timing. What we see is that the difference is a mere .4687%. So as we can see the most important factor here is that the investor persisted through all of the highs and lows of the fluctuations in the investment and stayed with the investment process for the entire 20 years to be a successful investor.

To further explore this idea the following link to Dynamic Funds historical investment data shows the two possible types of markets…a bull market which is moving upward and a bear market which is moving downward. From 1957 to 2021 the average bull market increase was 165% with an average duration of 67 months. In that same time period the average bear market decline was 29% with an average duration of 11 months. Over the long run, missing upturns can be just as damaging as experiencing downturns. In a second tab entitled “The Big Picture” we can see that from 1935 to 2021 that the average annual return for U.S. stocks was 11.7%, the average annual return for Canadian stocks was 9.7%, the average annual return for Canadian bonds was 5.9% and the average annual inflation rate was 3.5%.

Dynamic Funds historical investment data

Currently the annualized inflation rate in Canada is 8.1%. The inflation rate was 5% at the beginning of 2022 and 1% in January 2021. This is not a made in Canada phenomenon as prices around the world are rising. As a result central banks around the world have been aggressively tightening their respective monetary policies by raising interest rates.

The following link is a Blog written by Kristina Hooper, Chief Global Market Strategist at Invesco on July 18, 2022 discussing seven reasons to be positive in this market environment. Kristina discusses global supply chain pressures are easing, commodity prices are on the decline, there are some bright spots in recent inflation data, longer-term U.S. inflation expectations are becoming better anchored, there are positive economic signs emerging in China, the COVID situation in China has improved and when pessimism permeates markets, positive surprise can be more powerful.

[Seven reasons to be positive in this market environment]

Invesco will ask you to identify yourself as an individual investor on the left and then click on the confirm button on the right before directing you to the article.

Amanda and I are both qualified CERTIFIED FINANCIAL PLANNER® professionals at your service to assist in all areas of comprehensive financial planning including financial goal discovery, cash flow/budget analysis, retirement income planning, tax savings, estate planning, insurance needs analysis, investment planning, education saving planning, special purpose or major purchase planning.

I wish to thank you for your continued confidence and for the opportunity to serve you in all aspects of Financial Planning. As always, I will continue to keep in touch with you but if you have any questions or concerns, that you would like to discuss or review, please do not hesitate to contact either Amanda or I by email or by calling us at 519-894-2661 or toll-free at 1-800-716-5538.

Have a great day!

Respectfully Yours,

Gary

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