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Are You Being Swayed By Recent Market Volatility?

In the last quarter, investors feared what seemed to be a repeat of 2008. Financial markets were hit with a bad case of the jitters on worries that the global economy would not be able to withstand the belt tightening by Europe and the slowing of growth in emerging economies.

“Stock prices turned sharply negative as economic expectations were downgraded around the world, worries about the potential for a ‘double dip’ recession were rekindled, sovereign credit quality was questioned and investor risk aversion skyrocketed. Massive investor uncertainty regarding the global economic outlook was aggravated further by a variety of other developments – including eurozone government budget crisis, a major oil spill in the Gulf of Mexico, rapidly-mounting geopolitical tensions from North and South Korea, financial industry regulatory reform and a 1,000 point ‘flash crash’ in the US equity market – that proved too much for investors in the stock market to overcome.” – Marsico Capital Management, LLC

Not surprisingly, many investors and the media were stricken with recency bias – the tendency to take events of the recent past and extrapolate them into the future. Back in 2008, the market tumbled – and then continued to tumble after it had fallen to normal correction and bear market levels. With the market now down about 15% from its April high, many in the media fear the same will occur, with this apparently being the first leg of another historic plunge. The doomsters, who having got it wrong in 2009, get another shot at stepping up to their pulpits and evangelizing about the end of the world again and again.

While numerous challenges remain for the market and economy, it's important to keep in mind that many of the factors that triggered the '08 crash simply aren't present today. Back then, companies – the entities behind the stocks that make up the markets – were leveraged to the hilt. But in the year-and-a-half since, financial firms have written off billions of dollars in bad debt. Corporations have streamlined operations, preparing for what some had feared would be a second Great Depression, and now boast record-high cash levels. There are still problems – some financials are still holding plenty of bad debt, for example – but all in all, corporations are far better off than they were leading into the 2008 crash.

“The sovereign risk problem in Europe continues to be a concern with investors. But the reality is the Europeans are taking the measures necessary to cut down on their indebtedness. This is a good thing and the markets will likely recognize this fact with the passage of time.” – Mackenzie Cundill Investment Management Ltd.

“If the economic recovery continues to take hold, the sovereign risk should begin to subside.” – Leon Frazer & Associates Inc.

“Despite all the negative sentiment hitting the press, there are some important positive factors to consider. First, interest rates remain at record lows and will likely remain so for some time. This is a positive for stocks. Second, corporate profitability continues to show signs of strength, and companies are building up record levels of cash which will have to be deployed at some point, either into new projects or into mergers and acquisitions activity.”

– Howson Tattersall Investment Counsel

“Actual double-dips are rare. There have only been two episodes that could be considered double-dip in the US – the recessions of 1937 and 1981 – and in both cases the economy didn’t slip back into recession; policymakers gave it an almighty shove. Policymakers are more careful now.” – **Marsico Capital Management, LLC**

“Economic conditions are robust but, as is the case with every recovery, they are accompanied by challenges. As part of our boom-bust assessment, a lengthy period possibly two cycles long, of deleveraging [of debt] means that long-term economic growth will be positive but sub-par.” – **Thornmark Asset Management Inc.**

What should an investor do? Investors need to realize the fact that markets going up and down is normal and that 10%-15% corrections happen every single year – it’s not unusual. Despite these corrections every year, the stock market has one of the best long-term investment returns. What’s key is having a sound intellectual framework for investing and being disciplined and confident in its ability to meet your financial objectives. Being swayed by the recent negative news and events detracts from your long-term investment objectives.

“A pessimist sees the difficulty in every opportunity; an optimist sees the opportunity in every difficulty.”

– Winston Churchill

Do you see the opportunity in the sound intellectual framework that is your financial plan?



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