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## Market Volatility and COVID-19

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The outbreak of the COVID-19 virus pandemic has caused us all to quickly change our daily routines and cancel or postpone plans. Markets have reacted quite predictably and we are in the midst of a period of extreme market volatility, although some optimism returned with Friday's market rebound. Nobody knows how long the current pandemic will last but I am confident that at some point, things will return to normal. In the meantime, as investors, it is important to keep things in perspective (and to wash your hands).

### Some history

The Dow Jones Industrial Average is a basket of only 30 large US stocks but is the accepted gauge for the performance of the US stock market. The largest single-day correction ever was on October 19, 1987 (Black Monday), when it fell more than 22%.

At that time, I was a part-time university student working at Dominion Securities. The reaction of most brokers in the office that day was mostly fear and panic. The end of the world had arrived and no one was prepared.

Most brokers sold off all their clients' stocks and parked what was left in cash, essentially guaranteeing permanent losses. Fortunately, the broker I worked with did not panic and responded in a more reasoned and measured way. Instead, she took any un-invested cash and started buying, adding equity to her clients' existing high-quality investments. In a few short months by the end of 1987, the TSX generated a +2.7% return for the year. The lesson here is that staying the course is usually the correct course of action.

### Recent events

Similar to the Dow, the S&P/TSX Composite Index (TSX) is the primary gauge for the performance of the Canadian stock market. Chart 1 below shows the TSX over the last six weeks:

Chart 1:



Source: TradingView, Yahoo Canada Finance

As of Friday (March 13, 2020), the TSX closed at 13,716, down from its all-time high of 17,944. This represents a decline of 23.5%. Although it may feel like a long time since we have experienced a loss of this magnitude, Chart 2 below shows it has not.

Chart 2:



Source: TradingView, Yahoo Canada Finance

Chart 2 shows the TSX reaching a high of 16,567 in July 2018 before falling to 13,780 in December 2018 - a significant drop of 17%. No one panicked and in fact, many people didn't even realize it had happened. The recovery was swift, as Chart 3 shows:

Chart 3:



Source: TradingView, Yahoo Canada Finance

Fast forward to today. After the recent volatility, markets have returned to where they were about 14 months ago, essentially taking back the 2019 market gains.

### Longer term

The following are six of the largest corrections experienced by the TSX:

Year	High	Low	Decline	% Decline
2015-2016	15,540	11,843	(3,697)	-23.79%
2011-2012	14,315	11,280	(3,035)	-21.20%
2008-2009	15,073	7,557	(7,516)	-49.86%
2000-2003	11,400	5,909	(5,491)	-48.17%
Fall 1998	7,785	5,482	(2,303)	-29.58%

Source: TradingView, Yahoo Canada Finance

Market corrections are both normal and to be expected. If there was no risk, there would be no return. To put this into a broader perspective, the Chart 4 below shows how markets performed since July 1987.

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Chart 4:



Source: TradingView, Yahoo Canada Finance

The total cumulative return since the market peaked on July 1, 1987, up to and including the recent correction, was 267%. This amounts to an average annual return of 8.2%. Investors who did not panic and sell their assets were rewarded.

Although each period of extreme market volatility may feel different, it isn't. No one knows how long this volatility will continue. However, like the broker I worked with years ago, reacting in a reasonable and measured way is the best approach during periods of uncertainty.

Reacting in a manner based on instinct and fear is never a good idea.

The key is to stay the course and of course, wash your hands.

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