The Often Unasked Question

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With the December market correction in both the US, Canada and elsewhere slowly receding into the past, it is a good time to review what exactly happened and how clients have reacted to the recent events.

To put December into context, it was the most severe correction late in the year since the early 1930's. The market valuations improved dramatically as a result of the correction with Price\Earnings (P\E) multiplies falling by 5 points, which is the most in about 25 years and has happened only about 5 times in history.

Or to look at it another way, stocks valuations in the US went from being fully valued to maybe overvalued in early December to being undervalued or even a bargain by the end of December.

The full year for 2018 was also one for the records, but not in a good way, as most investors saw their portfolio values correct somewhat from the previous year. The full year saw, according to Deutsche Bank, close to 90% of combined bonds, equities and commodities indices posting negative Year-To-Date returns as of mid-November. This was a first since 1901!*

Conversations with clients have centered on what happened so late in the year. Why did this happen and how should they react - if at all - to this extreme market volatility. Most of the market action was a result of light trading volumes and panic selling. Fortunately, most people were busy with the Holiday season and took no action.

In times like these, many portfolio managers are often at their desks because they have a different perspective on market volatility. Other than forced selling, many portfolio managers started buying in the few days leading up to the New Year. They saw compelling valuations appear as their favourite stock picks reached attractive price levels.

While the average person saw negative news, most investment professionals were excited by the emerging bargains. Equity investments were on sale! The same thing happened in late September and early October 2008, when the markets melted down dramatically following the failure of Lehman Brothers. At that time, many investment managers were standing up in front of audiences of financial advisors and proclaiming how excited they were and how they had never seen such investment bargains in their entire careers!

To summarize, the lesson here is the contrast between how most investment professionals see market corrections, which they view as a forward-looking mechanism that will anticipate a change in earnings or corporate profits going forward, versus how the average retail investor views the same market corrections.

Therefore, the often unasked question from clients to advisors, is: "What do you like at this point as an investment opportunity?" This question rarely comes up during reviews or discussions about recent portfolio results. Maybe Canadians are shy or too polite to ask this type of question.

With RRSP season behind you now, **keep this important question in mind when you talk to your Advisor** [1] and when you have a few new dollars to invest.

It never hurts to ask and the answer may surprise you!

[*]*Deutsche Bank, Bloomberg Finance LP, GFD and IA Financial. "*Returns in US dollars as of Mid-November*"

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