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Midyear Outlook – June 24, 2020
Turley

Chris Schildz:

Welcome to the third of three podcasts of Conversations with Commerce Trust, all part of our 2020 Midyear Update series. We've heard from Director of Investment Strategy Joe Williams and Chief Economist Scott Colbert. And now we're going to hear from Barbara Turley, our Director of Investment Research on a more client-centric presentation during the pandemic. Barbara, welcome again.

Barbara Turley:

Thanks Chris. Glad to be here.

Chris Schildz:

Barbara, just really one question today. I know it's going to be an expansive answer for clients though. There is little doubt that global and U.S. markets will be volatile as we reopen for business. Could you give us some insight on what we do for investor portfolios in times of market stress, like this period we are experiencing with the pandemic?

Barbara Turley:

Sure. So, in the decade after the 2008 Great Recession, times in the markets were pretty good. I'm sure we had some hiccups such as the European debt crisis in 2011. And we had other periods of volatility surrounding the oil price collapse a few years later, the China slowdown and the Brexit vote to name a few, but overall, it was a relatively favorable period for the economy and the stock market. And during the good times, we made it a priority to talk with our clients about the "next" market correction. Now, we didn't know what the next correction would look like, but we knew there would be a next correction. And the point is that like the proverbial death and taxes, market volatility can be considered a certainty. And that's okay if you're a long-term investor. With a long time horizon, most investors can weather the ups and downs of the markets.

Now, history shows that the stock market can provide a good long-term return regardless of the market environment when you initially invest. Even if you had a 100% stock portfolio that invested right before the 2008 financial crisis on October 31st of 2007, and we're talking about the peak of the market here at that point, and let's say that portfolio continued through the first quarter of this year, which included the worst effects of the coronavirus recession. So, we're book-ending this hypothetical portfolio at the worst possible times. Even if you were that unluckiest of investors in terms of your timing, your annualized return over that time period would have been about six and a half percent annually. Now, most of us aren't going to be that "unluckiest" investor. So, you can see that the stock market can help increase investor wealth over the long run despite the hiccups, if you stay the course.

So, one of the things we explore with our clients is their risk tolerance as it relates to market corrections. I mean, stocks are certainly more volatile than bonds, but they also have higher expected returns. And the work we do helps our clients understand the mix of stocks and bonds that is right for them given this return-and-risk-trade off, as well as their time horizon and other factors unique to them. And once we implement our client portfolios, we help to prepare them for the next correction through education about market behavior and historical market volatility. If our clients are in the appropriate portfolio given their risk tolerance, and they are aware of the certainty of market hiccups, they can generally stay the course during corrections.

So, what about this correction? This certainly has been an unusual period, one in which investors might've been tempted to abandon stocks altogether. But in the end, we can look ahead to a day when we will have good therapeutic treatments and vaccines and be able to live with this virus without the death toll and the economic impact we've seen over the last few months.

And that perception should help investors understand that the markets are likely to fully recover, and they can stay the course with their portfolios. And part of our portfolio services is to identify areas of market opportunity for tactical adjustments. Our focus on growth stocks and domestic companies has provided a source of additional returns for our clients over the past several quarters. We also recommended some modest de-risking in client portfolios, as we focused more heavily on larger companies and higher quality companies in stocks and high quality in bonds. And interestingly, for those clients who meet the government eligibility requirements and are invested in private equity funds, this market downdraft was so quick that many private equity fund investors may not feel the pain due to infrequent valuations in private equity funds. Certainly, the long holding periods of private equity funds forced these investors to hang on to their allocations.

And I would also like to say a word about diversification. As we all know, some industries unfortunately have been hit very hard by the economic effects of the coronavirus, while other industries have been boosted by it. This pandemic has provided a clear proof point on the importance of a diversified portfolio, as virtually no one was predicting the nature and magnitude of this recession as it approached. And through a highly diversified portfolio, investors avoid being caught with the potential damage of a concentrated portfolio that just happened to be invested in the industries most negatively affected by the pandemic. So those are our best pieces of advice: make sure you have the right asset mix of stocks and bonds before a market correction, stay diversified, and stay the course. And as we climb out of this recession, we believe investors will be rewarded for following this advice.

And speaking of climbing out, our listeners can read more about our views on the markets and the economy in our 2020 Midyear Outlook, aptly titled “Climbing Out,” which is being delivered to our clients and also is posted on our website at www.commercetrustcompany.com. We want to thank our listeners for your time and attention, and also let our clients know how much we appreciate the confidence you have in us and the opportunity to work with you. We are always happy to help you with your questions, so please contact your portfolio manager if there is anything we can do for you. And please stay healthy and safe.

Chris Schildz:

That was Barbara Turley, Director of Investment Research at Commerce Trust Company. Thank you, Barbara.

Barbara Turley:

Thank you, Chris.

Chris Schildz:

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