Fancy Socks **March 18, 2020**

I bought a fancy pair of "Bugatchi" socks on sale last week for a special occasion coming up. Well not surprisingly, the occasion was cancelled, but I still remember how happy I was getting my fancy socks on sale at a 48% savings.

I am now applying the same "head space" to the ETF and stock purchases I made last week.

Even though todays' prices are lower than what I paid for these ETFs / stocks last week, when I click on the ETF symbols, and focus on the dividend yields I am getting, (which in some cases are 2 to 3 times HIGHER than I get in high interest savings account or from a GIC), I acknowledge I am GETTING PAID very well TO WAIT until these ETF prices recover.

An investor contemplating investing in the stock market should be prepared to leave that money untouched for a minimum of 10 years and preferably much longer. Five years before an investor may need to draw on their portfolio, the investor should move a significant portion of their portfolio into fixed income.

I received a question from a couple that had put aside some cash for long-term investing. They had been waiting for an opportune time to invest. Lucky them!

For context, the TSX closed at an all-time record high of just shy of 18,000 on Feb 2020. A mere four weeks later, on March 18, 2020, the TSX traded just shy of 12,000, or a whopping 33% cheaper. Now that is not quite the 48% savings I got on my socks, but still very interesting.

This 33% drop occurred in less than ONE MONTH, which of course means a new long-term investor now has at least 9 years, 11 months and 2 days to recover any potential future loss.

Technically, a Bear Market occurs when the stock market drops 20%, and a really bad Bear Market is considered a 50% drop. That would mean that IF we are in a really bad Bear Market, the TSX could drop to about 9,000. That is NOT a forecast, simply an observation.

Now for an interlude regarding "head space" from Warren Buffet:

"Unless you can watch your stock holding decline by 50% without becoming panic-stricken, you should not be in the stock market."

Given we have already experienced a 33% drop, believe it or not, good quality large capitalization diversified ETFs with a minimum of 5 years of trading history are likely to be a little safer today than compared to one month ago. Also, the dividend yields on these diversified ETFs are much higher than they were a month ago.

This stock market drop of 33% in less than one month is unprecedented, possibly the sort of time that we will look back on as an opportunity. One way to consider investing cash that has been set aside for long-term investing, but not invested yet, is to consider a staged approach along the lines of the example on the following chart:

				First Target		Second TSX Target		Third TSX Target	
	TSX	TSX % Decline	Cash Available	Invest 1/2 of Cash	Remaining Cash	Invest 1/2 of Cash	Remaining Cash	Invest 1/2 of Cash	Remaining Cash
February 20, 2020	18,000		$ 10,000						
First TSX Target	12,000	33%		$ 5,000	$ 5,000				
Second TSX Target	10,000	44%				$ 2,500	$ 2,500		
Third TSX target	8,000	56%						$ 1,250	$ 1,250

The reason to stage investing the cash over three periods is because no one knows when, or at what level, the stock market will bottom. We will be close when all the newspapers, TV shows and social media agree that it is going to get MUCH WORSE.

IF for example, the first TSX target happens to be the stock market bottom, and things do not continue to get worse, then at least we deployed one half of our cash at a 33% discount to the prior high.

IF the bottom occurs when the market hits 10,000, then we managed to invest one half of our money at a 33% discount, and one quarter of our money at a 44% discount (even better!).

IF the bottom occurs when the market hits 8,000, then we managed to invest one half of our money at a 33% discount, one quarter of our money at a 44% discount, and one-eighth of our money at a 56% discount.

Importantly, IF the market continues to drop, there is still some money to take advantage of the next leg down.

"Buy when everyone else is selling and hold until everyone else is buying. That's not just a catchy slogan. It's the very essence of successful investing." J. Paul Getty

By having a plan, and buying on the way down, one feels like they are ***taking advantage*** of a dropping market, instead of the other way around. A plan provides one the "head space" to feel like they are in control during the declining market, further it keeps one thinking of buying carefully, and not even considering selling into a down market. It is like getting a new quality pair of socks on sale!

The benefits of buying during a Bear Market is summarized using data for the US market, i.e. S&P 500, but the lessons are quite illustrative, as all major global stock markets have experienced similar drops over the last month:

This table shows the average returns over different time periods based on how far the S&P 500 declines from its high. The returns for periods longer than one year are the average annualized return of the index.

Percent From High	3 Months	6 Months	1 Year	3 Year	10 Year	20 Year
0%-5%	2.0%	4.1%	8.3%	8.3%	6.6%	6.1%
5%-10%	1.8%	3.6%	7.1%	6.8%	6.4%	6.5%
10%-15%	2.2%	3.6%	7.1%	6.7%	7.6%	8.0%
15%-20%	0.9%	1.7%	9.3%	5.7%	8.5%	9.1%
20%-25%	1.3%	3.5%	9.5%	8.4%	7.9%	9.0%
25%-30%	2.4%	3.8%	8.4%	8.5%	6.9%	9.6%
30%-35%	5.2%	8.6%	13.7%	9.3%	7.0%	9.0%
35%-40%	1.7%	7.8%	14.0%	9.5%	7.2%	9.5%
40%-45%	4.6%	13.7%	23.8%	12.2%	8.2%	9.9%
45%-50%	8.7%	19.2%	34.8%	16.0%	10.0%	10.4%
50%+	24.2%	36.8%	53.1%	22.7%	14.2%	*Data from Ycharts*

Source: theirrelevantinvestor

The chart is interpreted as follows: As an example, using a decline of 33% as of March 18, 2020, if this were the extent of the drop, we would expect a return of 5.2% in 3 months, 8.6% in 6 months and 13.7% in one year. More importantly, the 20 year return is expected to be about 9% per year, which according to the Rule of 72, indicates the money someone invested at this market level, will double every 8 years!

Create a plan.

Keep calm and carry on.

And

Invest long-term and prosper (wink to Star Trek).

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Fine Print