

Market Insights: New Developments, What to Consider, and Top Questions Answered

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TRANSCRIPT

SPEAKERS:

Jim Armstrong Leanna Devinney Jurrien Timmer

Jim Armstrong: Hello, and welcome to Market Insights. I am Jim Armstrong with Fidelity. Thank you for joining us today.

So we started this series a few months ago to talk in large part about market volatility, and the last week has given us plenty to talk about. We saw a big tumble in the markets late last week, kicking off conversations about a correction and what that correction might mean for us going forward. In the days since, we've seen market gains, we've seen market drops, and to overuse a pretty common reference, it has been a roller coaster, today included. So that's what we are here to talk about, not just those larger market events over the last few days, but we'll also talk about why they may have happened and what they mean going forward, in addition to what you can do to protect your investments, your assets.

During today's update, we'll hear from Jurrien Timmer. As Fidelity's Director of Global Macro, Jurrien studies the big picture of the overall economy and offers us real-time analysis of what it means. We are also joined by Leanna Devinney. She holds a Certified Financial Planner designation. She has worked one on one with customers for years, and now she leads a team of people doing that, helping Fidelity clients build financial plans for themselves and their families under all kinds of circumstances.

Remember also, the views and opinions in this webcast are those of our speakers. This discussion is for educational purposes and should not be considered investment advice.

So Jurrien, Leanna, great to have you here once again. It's been a rocky few days, I suppose. How are you both doing?



Leanna Devinney: It has. Doing well. But thank you. Great to be here.

Jurrien Timmer: Yeah, the markets are—price discovery never sleeps, and we are getting a real-time reminder of that.

JIM: Very much so. Very much so, Jurrien. We will start with you. It is Tuesday, June 16th. I think if we had a little time machine and could go back a week, you were formulating your look ahead, essentially calling for a market correction, saying you look at the charts, you looked for clues in your charts, and you felt like a correction was pending based on that. Sort of catch us up to date on your thinking, especially through the eyes of one of your charts.

JURRIEN: Yeah. This is a very technical chart using what we call Elliott Wave Theory, which we don't have to get into, but the basic premise is that primary waves or primary trends consist of five waves. So last Wednesday, I am sitting here looking at my charts, as I do every day, I am like, well, that looks like a really textbook completed five-wave pattern, and that is a good thing because five waves are primary waves, which means that this is—at least according to this particular theory—a bull market and not a bear market rally. But it also means that after five waves comes a correction. And so this was last Wednesday afternoon, so I put something on Twitter and LinkedIn saying we are probably due for a sort of cookie-cutter correction here. And lo and behold, the next day the market was down 6%. I am not going to take any credit for that, but purely luck. But sometimes the charts will speak to you, if you will, and they did, certainly, last week.

JIM: So can you talk a little bit about sort of whether or not this is what you just called a cookie-cutter correction and maybe thinking also about how future earnings estimates might factor into everything happening right now?

JURRIEN: Yeah. So when you look at this chart, this disconnect between the market and the economy that we've all talked about. And I have been of the opinion that the markets are actually less disconnected than people may think, and that's because the market is simply just moving ahead of the fundamentals because the market always looks ahead to tomorrow. You know, the markets don't discount today; they discount tomorrow. Or in this case, they are discounting earnings two years from now, looking past this decline.

So you can see the black line there is the markets drawdown, and we went from minus 34% to minus 5%, so recovering almost all of the losses. And the red line, which is the 2022 earnings estimate, remains at around 14% below the peak from February. And so the market was running a little bit too far ahead of those earnings estimates, a little bit over its skis, as we can say, and now after the 8% correction over the last week or so, we are closer to that. So I think this was a course correction, kind of a shaking of the tree, if you will, and I do think my sense is that this is nothing more than a healthy consolidation within an uptrend.

JIM: What do you make also, Jurrien, of what's happened in the couple of days since that correction on Thursday?

JURRIEN: So the market, it briefly—actually, yesterday morning the S&P futures were down 3% in the pre-open, and we actually ended up having a really big rally. There's a lot of crosscurrents. Obviously, people are very concerned about a second wave in the corona cases. There is even some chatter about the election and if there's a regime change, what does that mean for corporate taxes, et cetera. So there's a lot of concerns out there. But at the same time, the economic numbers have actually come in pretty strong. Retail sales up 17%. And so there is a sense that there is not much appetite in the country to lock down again, and that obviously has unfortunate implications for the health situation, but it also suggests that we are not going to have a repeat of a complete, total economic lockdown that we did a few months ago, really in some states still have today, and I think the market is getting more comfortable with the economic prospects moving forward.

JIM: Got it. Got it. Thank you for that. Leanna, I want to turn to you now and ask in market corrections like what Jurrien was just describing or in volatility in general like we are living in right now, I think a lot of us sort of see our balances drop or fluctuate and we start to worry about maybe meeting our long-term investment goals like retirement or saving for college. It can be super hard, I think, to keep perspective, even though and maybe because we just went through this.

LEANNA: Absolutely. And I know that it's easier said than done, but history is on your side. And so we can see here over the past 35 years, which have been filled with market noise, like we saw last week, corrections, recessions, the market return has been favorable. And this year, 2020, has definitely had many investors feeling anxious, to say the least, and naturally so because when we see our balances fall, our gut reaction is to react in the short-term. When we do that, we do tend to lose perspective on why we are investing in the first place. So the investment strategy should really be tied to your investment time horizon, your goals, and your tolerance for risk, and not what's going on in the market.

I would also like to say keep in mind this chart is showing the S&P 500 index, which is all stocks. So most investment plans that we build that are tied to the goals that we talked about are diversified, and they have an allocation of stocks, bonds, and cash, and we build those to have that mix and enough growth to achieve your goals, but also one that you can tolerate the ups and downs because staying the course is really important.

JIM: Yeah, and I—

JURRIEN: If I could just add to that real quick. I have studied this, and it goes all the way back to like 1870 in terms of the historical data. But the value proposition of the stock market is that, you know, you have a high chance of a correction at any time, as we have been seeing the last few months, and you need to have a pretty strong stomach to withstand that kind of volatility. But even with all those bear markets and crashes and corrections and God knows what, over the long run, if you can stay in it long enough, the market delivers about a 10%–11% return over the long run. So that includes all of the bad stuff that happens that you can see on this chart. So this is why equities are usually some part of almost everyone's investment portfolio.

JIM: Right. Not forgetting the idea, of course, that past performance is not a predictor of future success. But I think a chart like that is super helpful to me just because it helps give you a sense of history and a sense of perspective to sort of ground yourself in what's happening and maybe why it's happening.

Leanna, though, I want to ask you, that's great to have, but I would imagine some folks coming to you and your team are also saying what can I do, though? What action steps can I take in the face of the bigger picture? So what do you say?

LEANNA: So I have mentioned this a lot in the past, but I think even the end of last week served as a big reminder that in times like this, we can really take the time to identify our true risk tolerance and build a plan that matches that. Many clients that I have spoken to the past few months, they have had a range of emotions, many feeling confident and feeling prepared, but also others feeling that maybe they didn't have the mix that was in line with their goals. But because of that rapid decline that we saw, it also left clients stuck in what to do. But now what we've seen is a diversified portfolio, 60/40 we'll use that Jurrien has talked to, has retraced much of the losses. So now it's a time to say, okay, I have this second chance. Am I in the right investment mix to reach my goals?

JIM: Leanna, can you explain what a 60/40 is just to make sure everybody is on the same page?

LEANNA: Absolutely. That's saying 60% in equities and 40% in bonds or short-term investments. So what this chart here is showing is that a few of the different ways that we can build that diversified plan. So, as an example, that balanced in the middle of the chart is actually 50/50 mix when we say that. So Fidelity believes one of the key foundations to successful investing is diversification, so having, again, that stocks, bonds, and short-term investments, and it can really help control risk and it also just makes it much easier to stick with your plan through the ups and downs of the market.

So this next slide shows exactly why sticking with the plan is so important because it can be very tempting to think that we can outsmart the market, and we say, okay, let me just avoid the bad days, and I'll just invest during the good ones. But it's so challenging to do, and what we see so often is those best days we call are paired right next to some of the bad days. So it's impossible to time. And this shows that it's using \$10,000 since 1980, really the importance of staying invested as we leave it in the market over time.

JURRIEN: Yeah. If I could just emphasize the point Leanna just made. You know, market timing is really, really difficult. I've been doing this for 35 years, and I don't even bother to try anymore. Even if you get the exit right after when things start to look a little shaky, you know, good luck catching the bottom in terms of getting back in. And just think about the last few months what a V that's been. And, you know, saving for retirement is a slow, hopefully boring process where you compound returns gradually over a long time. And if you are out of the market, like you see here in some of these days, you are really at a disadvantage because then you almost have to start all over, and compounding—that compounding magic only works if you have a lot of time to do it. And so it's a very important point.

JIM: Jurrien, can I ask you a question that we are hearing a lot, and maybe you are hearing it, too, especially with the correction of last week. People are anxious to know how what we are going through right now compares to where we were about a decade or so ago. So how do you answer that question?

JURRIEN: Yeah. I mean, I think there are definitely some similarities. Obviously, the financial crisis was a massive economic shock, as this one is. Hopefully, this one will last much shorter because it's a different nature, of course. But the last cycle also included a Federal Reserve that was very aggressive in trying to stave off a worsening crisis, and the Fed this time around is even a bigger player. Fed Chairman Powell was testifying in front of Congress today just saying our job is to keep the markets open and functioning because back then the bond market basically shut down. And so it's interesting that, as you see in this chart, the analog of this current cycle compared to the 2009 low, there's a lot of similarities there. And actually, a part of the reason a week ago that I thought, you know what; a correction could very well happen right now, and part of that was also based on this analog where, in '09, after gaining 40% over three months from the bottom, the market took a one-month break, fell 9%, and then resumed its advance. So far, this correction, if we can even call it that, is good for 8% since last Wednesday. And it's now only Tuesday, so it's only six days old. But again, there's a lot of analogs here, and especially in terms of the Fed intervening to try to prevent this from becoming a bigger financial crisis.

JIM: So interesting when you see them overlaid like that. So thank you for that perspective as well.

Leanna's, that's Jurrien's sort of macro look, the historical look. I am curious what else you say to customers, what you tell them to keep in mind during a correction or just during volatility like this.

LEANNA: So we talked about the fundamentals of having that diversified plan, and we do see the long-term trend of the stock market, but this is also a great piece because it shows the aftermath of some of the bad times in the market. So this is showing the five-year cumulative return, past recessions, and it's even showing past the Great Depression. But also, what this chart does not show is even in that positive aftermath, some of the market events that we see. So if it's 5% downturns, 10% corrections, even 20%, it's a very normal part of investing, no matter how painful it may feel. So even just looking at that analog Jurrien showed in 2009, I think back to conversations with my clients after that, and we saw events like oil prices dropping, the Brexit vote, volatility up to presidential election, and even after that, the trend of the markets were very favorable. So I think what can also be helpful during times like that is what we see that when we invest regularly, it really helps. That's something called dollar cost averaging. I know Jurrien speaks to that frequently as well. Jurrien, do you want to touch on that?

JURRIEN: Yeah. Sorry. Sorry. Yeah. So I have done work on this. And if you go back about a hundred years and you ask a simple premise, basically, you invest the same dollar amount every month for ten years in a 60/40 and you look at the result ten years later and you do that year after year from the 1920s until now, that strategy, in nominal terms, historically—and obviously, like past performance, no guarantee—but that strategy has always made a positive return. Sometimes it's low. Most of the time it's high. But that has never lost money in nominal terms. In real terms, it has a success rate of about 90%, which is still extremely good. So it's this notion of put a little bit away but do it every month for a long, long time. It takes a lot of discipline and a lot of patience, and, obviously, it requires for investors not to exit that strategy at any time because, again, of that compounding. But it works. Dollar cost averaging is a very proven story over the long-term.

LEANNA: And I would say, just in sum, what this does show is that staying the course, it does make sense, and especially when you look at what's happened in the past five years after major market events, we are still seeing that significant recovery and also just why it's so important to have that diversified plan.

JIM: Absolutely. I feel so lucky to be spending time every week talking to you about this because you both have so much to share, and I think the value that I am thinking it's providing to people who are watching this webcast is just sort of reassuring, right, and calming. You are acknowledging that this is good messages to share, but you are also acknowledging that it can be sort of hard to follow, and it does take discipline, and it is easy to stray from that path when times get a little bit rocky. So thank you for your honesty and transparency when it comes to all of that. Of course, thank you for joining the conversation once again this week. Thank you to everyone watching.

We want to make sure that you know Fidelity continues to work to make sure that your financial services needs can be met. So if you're thinking about building or updating your personal financial plan to help you reach your own goals, like the ones that we were describing just a few minutes ago, you can definitely feel free to call Fidelity to speak to one of our representatives or certainly to go online to our website to learn more about how to do that.

Again, huge thanks to Fidelity's Leanna Devinney and Jurrien Timmer. Thank you once again for joining us. Be safe, be well, and we hope to see you right here again next week.

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