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VICTORIA Capital Management, Inc.

# Market Musings

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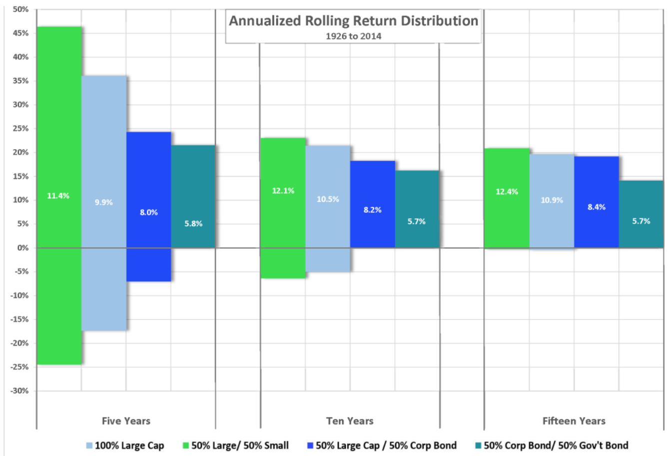
**The tradeoff for equity investors is volatility versus time. The total returns of the bond and stock indices reflected in the chart to the right quantify the volatility risk present for the short-term and the reduction of that risk as time increases.**




***"If all the economists were laid end to end, they'd never reach a conclusion."***

*George Bernard Shaw*

## The Importance of Investing for the Long-Term

We were wondering how many "long-term" investors decided to cash out of the market as the short-term market decline we just experienced scared more than just a few investors to the sidelines. While that decision may have looked good during March, the April reversal to the upside introduced some doubt into that decision to sell out and realize losses. For those investors who get involved in watching the stock market on a day-to-day basis, there is always the risk that emotion will overwhelm the fact that the stock market is one of the best long-term investments. This decision is even more important for younger investors who have never, until now, experienced a bear market or a recession. The benefit that this group of investors has is that they are likely participating in a systematic investment plan where they contribute from each payday – thus actually benefitting from these short-term market declines as their contributions buy more shares of the securities in their pension plans.

We all know the importance of dollar-cost averaging briefly described above. But do we understand the importance of WHEN to begin investing? The answer is SOONER rather than later due to the value of compound interest. You may have heard this example before, but it is worth repeating: Two investors decide to save for retirement using the same investment strategy by making systematic contributions to their pension plan. The first investor starts at an early age but after eight-ten years decides to stop contributing. The account continues to grow over time even though there are no further additions. The second investor starts saving later in life—in the same year that our first investor decides to stop saving. This investor continues to save up to and into retirement. The question is "Which saver has more money when they want to retire?" The answer is surprising since the first investor saved for only ten years and the second investor saved for 30-40 years: the first saver ended up with more money in retirement. How could that happen? The reason it happened was that the first saver's investment grew at a rate that exceeded the contribution of the second saver so that the second saver could NEVER catch up. While this example is hypothetical, a long-term investor who benefited from the historical returns of the stock market could experience that same result. As the exhibit above demonstrates, the hardest part of long-term investing is enduring short-term volatility.

### *Market Commentary*

The star performer of financial markets in April were equities as a relief rally followed the collapse in March. In April, the S&P 500 rose 13%, the biggest monthly gain since 1987! Equities have recovered just over half of what they lost—not bad given the magnitude of the global economic slow-down. Initially, the corona-virus and the oil price decline were responsible for dividing the market along the lines of winners and losers as benefi-ciaries of the virus and the shutdown did well such as videoconferencing, drug de-velopment and online shop-ping companies. On the other hand, leisure and recreation companies such as restau-rants, cruise lines and airlines suffered from fears of bank-ruptcy. Yet, the April rally brought many of these companies' stocks back to life.

***A Chinese gong was first used at the New York Stock Exchange in the 1870s with the advent of continuous trading and replaced in 1903 with the current electronic brass bell.* (source: NYSE)**