Receiving emails from clients with concerns about markets is not uncommon. A common email we get may include an attached article from a Chief Investment Strategist (or something someone posted on Facebook) stating there will be unprecedented 10-year bull market in equities over the next 10 years or the opposite that the largest bear market in history is right around the corner. Our reply to either would be something along these lines:

Dear Worried Investor,

Who knows... And who should really care... The direction of markets over the short and medium term is a fools game to try and determine. This is why your asset mix (combination of cash, bonds, GIC's) and equity (common stock) is so critical to YOUR wealth plan. Once we established your asset mix,the second most important thing is to stay with it. In other words, not making wholesale capitulation in and out of asset classes. The third, is to maintain the desired asset mix percentages by rebalancing (buying low and selling high).

That said, let's suppose there is a bull market. GREAT! You will benefit greatly from the portion of your portfolio that has equity. In fact, over the next 10 years, you will be trimming back from your equity weights as they swell as a percentage of your overall portfolio weights. The trimming will probably come from cashflow rebalancing (every year the money required for your consumption, withdrawal from investments, will be trims from your equity positions). Now let's suppose the bear market prevails. You have not invested entirely in equities and while equities are down we will do two things. First, any cash needs will come from the fixed income portion of your portfolio. Second, we will rebalance back to your target asset mix taking from fixed income and buying equities while they are on sale.

Let's look at this from a client who ten years ago wanted to go entirely to cash and fixed income but who ultimately stayed with their target asset allocation. During this 10-year period, we maintained an equity weight in the 40% range which required most cash outflows to come from their equity positions. This past fall, we ran an analysis of what their wealth picture would have been if they had not had the return benefit from the equity weight in their portfolio over the last 10 years... It was substantial! Their wealth position in October was approximately $2,345,000. If this client had his or her wealth invested entirely in a GIC portfolio, with the exact same starting value and withdrawal rate, they would have had $1,385,000 of wealth remaining in October 2020. This is a difference of $960,000 and that is what you call "Wealth Destruction".

The Hicks James Advisory Group would love to drill down on this with a chat regarding some of your other wealth planning decisions.

Talk soon.

Chris James
Investment Advisor

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Investment Advisor