



Di Iorio Family Wealth of RBC Dominion Securities

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'Recessions' Re-Examined

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There has been plenty of talk over the last few months about when the US economy will slip into the next recession. It seems that this is being driven by various topics, including uncertainty surrounding the ongoing trade negotiations between the US and China, concerns over the path of interest rates, headlines regarding the “inverted yield curve”, as well as a general level of social unrest that seems to be increasingly felt around the world (see: Brexit, protests in Hong Kong, etc.).

However, what we feel is being lost in the discussions surrounding this issue, is that predicting the onset of a recession does not necessarily add much value for investors. To help illustrate this point, we reviewed the following data for the last 14 US recessions (dating back to 1929): performance over the 12 months leading up to the recession, performance during the recession, and performance over the 1, 3, and 5 years following the recession. Note that all of these numbers are based on S&P 500 index data.

On average, the 12 months leading up to the last 14 recessions have seen returns of 11.5%. The average performance during the recessions was -4.3%, although the market actually had a positive return during these recessions 7 out of the 14 times. Finally, over the 1, 3, and 5 year time horizons following these periods, the cumulative S&P 500 returns were on average 20.7%, 52.6%, and 85.8%, respectively. Our intention is not to dispute the fact that the economic cycle plays an important role in the overall health of the market, but rather to highlight the futility of trying to make market timing decisions.

There is no doubt that these types of periods come along with increased volatility, which increases the level of uncertainty felt by many investors. This is why we like to add context by looking at quantifiable historical data to help reassure clients that remaining patient is nearly always the correct decision, despite the narrative being pushed by the media. Earlier this year, we published a post called [“Changing the Negative Narrative”](#), which touched on the fact that, as humans, we tend to allow external influences to shape our opinions as opposed to simply relying on “Factfulness” (which also happens to be the title of a book by Hans Rosling which we highly recommend).

For the month of September, we will be focusing on why trying to time the market simply does not work. Be sure to follow us on Facebook and LinkedIn to keep up-to-date with some thoughts and articles we will be sharing on this topic over the next few weeks.

Sincerely,
Di Iorio Family Wealth

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