BROMPTON FUNDS

Brompton Insights

February 2021

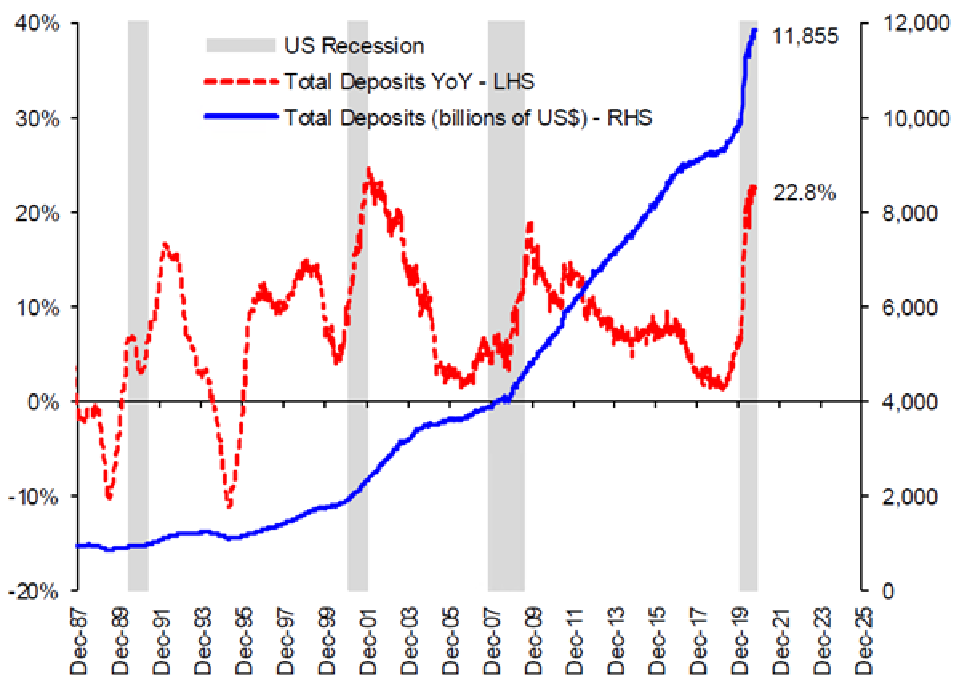
Cost of Sitting on the Sidelines

Fund in focus: Brompton North American Low Volatility Dividend ETF (BLOV)

In our March 2020 Brompton Insights piece, The Cost of Panic Selling, we reviewed trading data for the S&P 500 Index from 2000-2019. We concluded that investors who "sat out" of the market only had to miss the 20 best returns days over this 20 year period, an average of one day per year, to see their returns over the period go to 0% and begin to turn negative. We revisited this analysis, broadening the scope to include Canadian as well as U.S. equities and looking at returns missed by investors who opted for saving instead of investing in 2020.

As noted in the chart below in the blue line, U.S. savings accounts saw an increase of US$2 trillion since February of 2020. This was primarily due to reduced consumer spending during the pandemic – particularly in the services sector – along with unprecedented stimulus/relief from the federal government, which included direct cash payments to individuals. This pushed the household savings rate in the U.S. to record levels, with savings hitting a peak of 33.7% of disposable income in April. Additionally, many investors increased their cash position as markets sold off in the first quarter and as volatility remained elevated through the year. For market investors, concerns about volatility and their desire to save to offset the uncertainty of the pandemic is certainly understandable; however, holding cash in a savings account ended up being an investment mistake in 2020 for those that could have stayed invested either in whole or in part. The red line in the graph below shows the year-over-year change in deposits. As the economy recovers from periods of recession, the red line starts a process of dropping and surplus cash flows back into economy by way of consumer spending, capital investment and equity market deployment. As capital flows back into the system, corporate profits benefit from the additional demand and economic growth moves higher. Equity markets will benefit from greater profits.

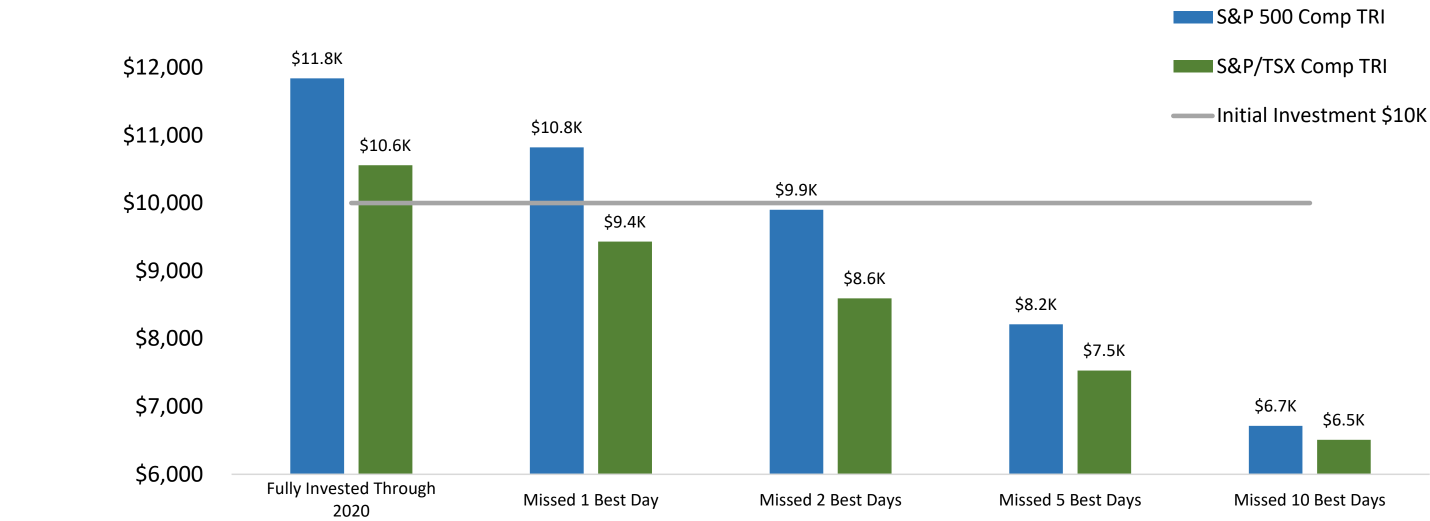
Total Savings Deposits (U.S. Depository Institutions)



Source: Scotiabank GBM Portfolio Strategy, FRED, as of December 24, 2020.

Looking back at 2020 with all the volatility we experienced, it ended up being a profitable year in the markets. Staying invested in the S&P 500 through the peaks and troughs would have resulted in a total return of 18.3% for the year. Investors who remained invested in the S&P/TSX Composite Index saw smaller but still positive total returns of 5.6%. However, missing only the 2 best return days for the S&P 500 Index, or only the single best return day for the S&P/TSX Composite Index, took returns from positive to negative for 2020. Of note, the best return days for both indices were in March 2020, a time when market fear was at its peak and many investors had exited the market.

Cost of Sitting on the Sidelines - 2020



	Fully Invested Through 2020	Missed 1 Best Day	Missed 2 Best Days	Missed 5 Best Days	Missed 10 Best Days
S&P 500 Comp TRI	$11,840	$10,823	$9,900	$8,213	$6,714
S&P/TSX Comp TRI	$10,560	$9,432	$8,596	$7,532	$6,508
Initial Investment $10K	$10,000	$10,000	$10,000	$10,000	$10,000

Source: Refinitiv Datastream, as of December 31, 2020.

We reiterate our conclusion from March 2020 that exiting the equity market and sitting on the sidelines can come with a significant cost. For investors that are looking for an entry point, but are nervous about certain sectors of the market being over-heated which may contribute to future volatility, Brompton North American Low Volatility Dividend ETF (BLOV) offers a lower risk approach to investing in equities. BLOV is designed to produce equity returns with lower volatility through investing in a diversified portfolio of North American large capitalization equities. Our Portfolio Management team employs quantitative analysis with an active fundamental overlay to construct a portfolio with lower overall volatility than the market. The PM team also overlays an options strategy with the goal of further lowering volatility, while also aiming to increase distributable cash and total returns.

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