



MARCH | 2020

THE JOHNSON LEGACY REPORT

Building Trust for Generations



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The Emotional Rollercoaster

Absolute dread.

You've surely seen a video of a herd of gazelles being chased by a lion. They're running for their lives. Most people feel that way in the stock market at some point during their investment journey. Prices are going down, panic sets in and there's a stampede to sell. The stampede occurs because there are very few things in life as uncomfortable as watching the price of something you own go down if you don't know what the value of it is. Most people don't know the true value of what they own, so dread sets in. The easiest thing to do is sell, so they join the stampede.

Famous bouts of dread in the stock market:

- COVID-19 outbreak of 2020?
- The economic slowdown in Q4 of 2018
- The U.S. debt downgrade of 2011
- The European sovereign debt crisis of 2011/12
- The U.S./global financial crisis of 2008/2009
- 9/11
- The dot-com bubble burst of 2000 to 2002

Fear of missing out (FOMO).

FOMO is the politically correct label for the other end of the emotional extreme. Envy is the old-fashioned word for it. Nothing seems to disturb the human psyche more than watching your friends get rich when you aren't. Envy causes the average investor to become greedy at some point in every market cycle. When you combine envy with the fact that the average investor doesn't understand the value of businesses, you can then see how bubbles form and pop – destroying the envious along the way.

Famous bouts of envy in the stock market:

- Cannabis stocks from 2016 to 2018
- Emerging markets from 2011 to 2015
- U.S. housing market in 2005/2006
- Dot-com bubble of 1998 to 2000

None of these ended well for those who caught FOMO while these significant events were going on.

To achieve a pleasing long-term outcome from your investments you truly need to believe in the investment approach that is used to guide your investment. Why do you have to believe? Because without belief, you're more likely to jump out of your investment when faced with short-term underperformance or a downdraft in the overall markets – thus eliminating the ability to compound



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your wealth over the long-term. To illustrate this point, let's look at one of the most successful investment vehicles of all time: Berkshire Hathaway.

An investor who invested \$100 into Berkshire Hathaway 55 years ago finds themselves with an investment worth about \$2.7 million today. However, the path to this fortune wasn't smooth.

- There were three periods of time where your investment would have fallen by 50% or more.
- Furthermore, there were 18 years where Berkshire underperformed the returns on the S&P 500 index.
- In 11 of those 18 years, it underperformed the S&P 500 Index by more than 10%.

Staying invested during those periods of time was obviously necessary to achieve the remarkable long-term returns. However, it would have been extremely difficult mentally to stay invested over that period of time. Fear would have gripped you – fear of losing money when the market was going down and fear of underperforming in those 18 years when Berkshire underperformed its benchmark. Those who were able to overcome that fear reaped the rewards. Those who stuck it out had the antidote to fear – belief in Berkshire's investment approach grounded in understanding, which led to the ability to avoid behaving emotionally during the tough times.

The investment approach that guides Johnson Legacy has protected and grown capital for investors longer than Johnson Legacy has been around. Thinking like a rational business owner has helped us navigate markets frozen with dread and dripping in envy. It has seen recessions and recoveries, rising and falling interest rates, wars, inverted yield curves, pandemics and countless presidents and prime ministers. It has seen different fads, like price momentum investing, come and go. It has not only survived the test of time, but thrived, and the reason is that nothing can beat investing like a rational business owner over the long-term.

Source: Tye Bousada, partner EdgePoint.

Market Pulse:

Major Stock Indexes	Level/Price	YTD Return Ending Feb 28th/2020
S&P/TSX Comp	16,263	-4.69%
S&P 500 Comp	2,954	-8.56%
Dow Jones Industrial Avg	25,409	-10.96%
Major Bond Index		
Dex Universe	1,164	3.64%
Commodities		
Crude Oil - WTI (US\$/bbl)	\$45.54	-25.42%
Gold (US\$/oz.)	\$1,595	4.69%
N. Gas (US\$/MMBtu)	\$1.71	-21.75%
Currency		
Canadian Dollar (CAD/USD)	\$0.75	-2.90%

Source: Bloomberg.





Personal Updates

Jay, Brianne, Charley and Tucker had a busy February. With too many hockey games and a tournament in Langley for Tucker, snowboarding, dance and soccer for Charley, Jay and Brianne had to divide and conquer. As enjoyable as the chaos is, they are all looking forward to their annual trip to Maui for a much needed spring-break!

Lori was thinking she was pretty healthy watching Jay and Lisa battle colds for weeks, but unfortunately she ended up catching it too. While it put a damper on her lifestyle, she realized the so called “Netflix addiction” can be a real thing. Hopefully she will have more to report for our next newsletter!

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