

Pathfinder Investment Outlook

For the week ending February 7th, 2020

Geopolitical Events & Fear

Welcome back to the Pathfinder Investment Outlook. We are now in our 10th year writing for Pathfinder. We have been writing this note in various formats since 2007 (13 full years!). By now, you have received our year-end mandate reports. Regular readers will note that we did not make any mention of the geopolitical events that have been taking headlines in the regular and the financial press (presidential impeachment, middle east crisis, pandemic risk). While we definitely paid attention, we do not let these narratives drive our investment process. Over the years, we have learned that the fear that comes from these extreme events is usually over exaggerated in financial markets. Nevertheless, we do have a number of clients that reached out to discuss this with our Portfolio Managers and Investment Counsellors, so we thought it prudent to make note of it in our first Investment Outlook of the year. Please see the table and discussion points below:

- Figure 1 presents a table compiled by LPL Research. It is a list of geopolitical events in chronological order along with the market impact the day that it happened. The interesting data is the **drawdown** and the subsequent days to **recovery**.
- The aggregate statistics are interesting, but we also like to consider the extremes (i.e. maximum drawdown is essentially between **-11 to -20%**).
- On **average**, after an “event”, there is a 5% drop in the market that lasts just under a month and subsequently recovers in about **6 weeks**. In the **worst case**, the event would trigger a bear market that lasts between 6 months to **1 year**.

“This means that” we do not spend much energy trying to manage our portfolios for this type of risk. The opportunity cost from mistiming the events could be very large. Instead, we use the panic to look for opportunities to add to our good quality companies. Over the past couple of weeks, we have built and analyzed a large data set of all of these types of geopolitical events. In the coming weeks we look forward sharing our results and conclusions.

Geopolitical Events February 03, 2020

Geopolitical events and stock market reactions						
EVENT	DATE	S&P 500 INDEX		DAYS TO...		
		ONE DAY	TOTAL DRAWDOWN	BOTTOM	RECOVERY	
Iranian general killed	1/3/20	-6.7%	-%	-	-	
Saudi Aramco drone strike	9/14/19	-0.3	-4	19	41	
North Korea missile crisis	7/28/17	-0.1	-1.5	14	36	
Bombing of Syria	4/7/17	-0.1	-1.2	7	18	
Boston Marathon bombing	4/15/13	-2.3	-3.0	4	15	
Madrid bombing	3/11/04	-1.5	-2.9	14	20	
9/11 terrorist attacks	9/11/01	-4.9	-11.6	11	31	
Iraq's invasion of Kuwait	8/2/90	-1.1	-16.9	71	189	
Reagan shooting	3/30/81	-0.3	-0.3	1	2	
Munich Olympics	9/5/72	-0.3	-4.3	42	57	
Tet offensive	1/30/68	-0.5	-6.0	36	65	
Kennedy assassination	11/22/63	-2.8	-2.8	1	1	
Cuban missile crisis	10/16/62	-0.3	-6.6	8	18	
N. Korea invades S. Korea	6/25/50	-5.4	-12.9	23	82	
Pearl Harbor attack	12/7/41	-3.8	-19.8	143	307	
Average		-1.2%	-5.0%	22	47	

Source: LP Research, S&P Down Jones Indices

Michael Rudd, CFA | President, CEO & Portfolio Manager



Pathfinder Asset Management Ltd. | Equally Invested

1320-885 W. Georgia Street, Vancouver, BC V6C 3E8

E info@paml.ca | T 604 682 7312 | www.paml.ca

Sources: Bloomberg, Pathfinder Asset Management Limited

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*All returns are time weighted and net of investment management fees. Returns from the Pathfinder Partners' Fund and Pathfinder Real Fund are presented based on the masters series of each fund. The Pathfinder North American Equity Portfolio and The Pathfinder North American Income Portfolio are live accounts. These are actual accounts owned by the Pathfinder Chairman (Equity) and client (High Income) which contain no legacy positions, cash flows or other Pathfinder investment mandates or products. Monthly inception dates for each fund and portfolio are as follows: Pathfinder North American Equity Portfolio (January 2011), Pathfinder North American High Income Portfolio (October 2012) Pathfinder Partners' Fund (April 2011), Pathfinder Real Fund (April, 2013), and Pathfinder International Fund (November 2014).

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