

# Pathfinder Investment Outlook

For the week ending February 14<sup>th</sup>, 2020

## Geopolitical Events & Fear: Continued... War & Terrorism

Welcome to the 2<sup>nd</sup> edition of our outlook for 2020. In the 1<sup>st</sup> edition, we mentioned that we did not touch on geopolitical events (presidential impeachment, middle east crisis, COVID-19 pandemic risk, etc.) in our mandate reviews that came out at the beginning of the year. While we pay attention to the headlines, these events do not drive our investment process. Due to the great client reaction on this comment, we continue to expand on the work this week. We found that the original data was quite selective, and we believe that could have led to some bias. Therefore, we went back and found hundreds of previous events and categorized them into five groups (Human Error, Natural Disaster, Pandemics, Political, Terrorism and War). We also expanded our analysis to outside of the US. We looked at the impact on International stocks (MSCI EAFE) and Emerging Markets (MSCI EM). This week, we focus on War and Terrorism.

- The most obvious conclusion that we drew from the data was that, **International** and **Emerging** Markets were **more volatile** than their domestic counterparts both in terms of drawdown but also in recovery.
- We also noted that on average, S&P 500 one-year return after each event was positive (i.e. the market had fully recovered). Only 27 events of 157 identified resulted in negative markets after one year.
- Figure 1 presents Terrorism and War events. Terrorism seems to have limited effect on financial markets with only 9/11 having a lasting impact. War does have a more dramatic short-term impact, but markets ultimately recover with strong results in the end.

**Figure 1: Geopolitical Events: Terrorism and War** February 14, 2020

Event	Date	One day	Total Drawdown	Days to Bottom	Recovery	1 Yr. Change
<b>Terrorism</b>						
The Paris Terrorist Attacks	13-Nov-15	-1.1%	-1.1%	3	4	7.0%
Boston Marathon Bombing	15-Apr-13	-2.3%	-3.0%	4	15	20.0%
Sandy Hook Shooting	14-Dec-12	-0.4%	-0.4%	3	4	26.4%
Madrid Bombing	11-Mar-04	-1.5%	-2.9%	14	20	9.0%
9/11 Terrorist Attacks	10-Sep-01	-5.2%	-11.6%	14	32	-16.8%
Oklahoma Federal Office Bombing	19-Apr-95	-0.1%	-0.1%	1	5	28.3%
<b>Average</b>		<b>-1.8%</b>	<b>-3.2%</b>	<b>7</b>	<b>13</b>	<b>12.3%</b>
<b>War</b>						
Saudi Aramco Drone Strike	13-Sep-19	-0.5%	-4.1%	20	45	-
Syrian Civil War begins	15-Mar-11	-0.7%	-2.5%	2	7	9.5%
US attacks Sudan & Afghanistan	20-Aug-98	-0.6%	-12.8%	12	74	24.6%
Iraq's invasion of Kuwait	02-Aug-90	-1.1%	-16.9%	71	189	9.6%
Tet offensive	30-Jan-68	-0.5%	-6.0%	36	65	10.9%
North Korea invades South Korea	23-Jun-50	-5.7%	-12.9%	25	84	11.2%
Atomic Bombing Nagasaki	09-Aug-45	-0.1%	-2.6%	12	15	22.2%
Atomic Bombing Hiroshima	06-Aug-45	-1.4%	-1.4%	2	4	22.5%
Pearl Harbor attack	05-Dec-41	-3.9%	-19.8%	145	312	-0.2%
<b>Average</b>		<b>-1.6%</b>	<b>-8.8%</b>	<b>36</b>	<b>88</b>	<b>13.8%</b>

Source: Pathfinder Asset Management Limited, S&P Dow Jones Indices, Bloomberg Markets LP

**“This means that”** we limit our energy spent on trying to manage our portfolios for this type of risk. It may seem like there is a short-term trading opportunity, but it is extremely difficult to do correctly and consistently. Also, the risk of missing out on a strong economy and market afterward is higher than any potential short-term gain. Instead, our Portfolio Managers use the panic to look for opportunities to add to our good quality companies. It is much easier to focus on long-term prospects of good companies with rational logic than fear and panic.

Michael Rudd, CFA | President, CEO & Portfolio Manager



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Sources: Bloomberg, Pathfinder Asset Management Limited

**Disclosure**

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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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