Feeling Low About All-Time Highs?

The Dow Hit 20,000. Now What?" asked the New York Times on January 25th, the day after that storied index passed this plateau for the first time in history. With a stock market rally off the financial crisis lows now eight years long in the tooth, you are likely reading an increased number of press headlines about markets hitting new highs. Most of these articles are written in a cautionary tone, implying that what goes up, must come down. After all, now that stock markets are at all-time highs, where else is there to go?

Our view at Guardian Capital Advisors is, as always, a bit more measured. Rather than acting with a knee-jerk response to price action, clients should also take valuation into consideration before coming to any conclusions. When stocks have moved considerably higher relative to their profit outlook, clients generally do well to take steps to rebalance if their asset mix has deviated materially from their individual target allocation. But if stocks have moved higher to reflect an improved financial outlook then the decision is less clear cut, requiring some subjective consideration about the extent of market valuations before coming to any conclusions. On this front, North American stock markets have certainly risen relative to earnings in recent years but still remain below prior historical peaks, leaving some room for debate about whether or not the recent upswing has been too much, too fast. Clients are wise to be wary, but need to consider these "all time high" headlines in the context of valuation.

Of course markets reach new highs, otherwise why would anyone invest in it? Over the past 25 years encompassing 6,300 trading days, North American stock markets have spent between 5% and 7% of their time hitting all-time highs. These tend to come in clusters, of course, but on average this works out to the markets hitting new highs roughly once a month.

	TSX Composite Index	S&P 500 Index	Down Jones Industrials Index
Percent Of Time At All-Time Highs	5.5%	6.7%	7.3%

* Dec 31, 1991 to Dec 31, 2016

Although this might seem surprising, it's worth the reminder that, in the face of crises, elections, wars, recessions and more, the economy tends to keep growing, and along with it, corporate profits. We are constantly looking for opportunities to buy into high-quality, growing companies, and the natural state of these leading businesses is to be hitting new share price highs as they grow their profits. Consider just one household name held across a number of our client accounts – Canadian National Railway. Profiting from its unique transcontinental network, CN Rail has traded at all-time highs for 7.7% of its twenty year life as a publicly listed company. A savvy investor who purchased at year end in 1996 could have sold just ten months later, in October of 1997, pocketing a nifty 50% gain and feeling the triumph of selling CN at its all-time high. Unfortunately, however, this same investor would be forgoing the next 1,286% to be earned in the stock by the end of 2016, as CN shares have risen to reflect the company's growth in net income from $124 million in 1996 to just over $3.6 billion by the end of last year.

We embrace a disciplined, analytical vs. anecdotal approach to wealth management (periodic rebalancing, dollar cost averaging, and the power of compounding that comes with time in the market). It's appropriate to tread carefully when markets have had a strong upwards move in a short interval, as they have recently, but clients should also not be fearful of owning shares in industry-leading companies with sustainable advantages – these are the stocks that typically rise to new heights over the passage of time as they grow and prosper.