2019 Year in Review

A Look Back – 20 Years Back

It was November 1999 when I moved back to Calgary from Toronto to open TD's newly established Private Client Centre in the Stock Exchange Tower. The predicted crash of anything tied to a computer weighed on everyone's daily life as impending Y2K was upon us. We are now ushering in 2020 and the last 20 years seem like somewhat of a blur. Time has somehow crept up on me and is accelerating in my life as I grow older. I think many of you may have the same feeling with some days feeling long, yet the years are flying by. As I muse how the next decade might unfold, I can't help but increasingly spend more energy focusing and acting on my sense of purpose over the next many years. My purpose in work is to provide guidance and support for my clients in their journey to achieve their diverse and changing financial goals. Outside of work, I am moving along the line of providing an increasing level of involvement to those that are less fortunate. Closest to my heart is guiding my adult children as they evolve into meaningful contributors to society.

As I turn the work years back to the end of 1999, what do I see? Below is an excerpt from a December 31, 1999 article by CNN.

"NEW YORK (CNNfn) - Wall Street finished the 1900s at an all-time peak Friday -- capping a century of unprecedented growth punctuated by two market crashes, the longest-running stock rally in history, and the emergence of technology companies as leaders for the 21stcentury.

All three leading market indicators ended at record highs in an abbreviated New Year's Eve session. The Dow Jones industrial average -- the only major indicator in existence 100 years ago -- rose 44.26 points to 11,497.12, surpassing the record set Wednesday.

The Nasdaq composite index gained 32.44 to 4,069.31, also topping a mark set Wednesday, while the S&P 500 index rose 4.78 to 1,469.25, the third straight record close for the indicator."

The TSX Composite Index ended at 8413 that year. Recall that technology was also driving the TSX to new heights, with Nortel leading the charge. The equity markets, led by technology, also triggered double digit market losses in 2001 and 2002.

As I read the above CNN article, I was taken aback as to the similarities of today, as well as over the past 20 years. That same note could be written for year ending 2019 with just the index levels updated. Equity markets had a significant bear market drop in 2008, but that implosion was detonated by a financial crisis. Technology has boosted the markets once again to all-time highs. In Canada, technology stock Shopify rose over 173% this past year.

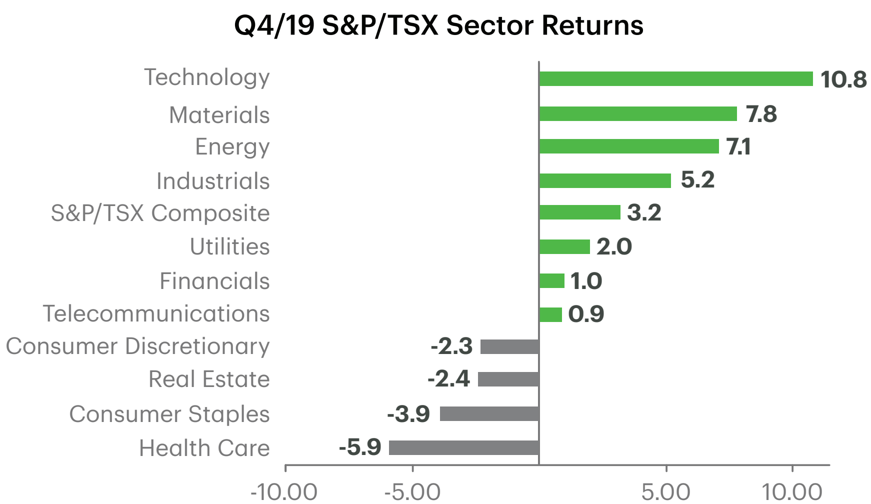
Equities

Canadian Equities

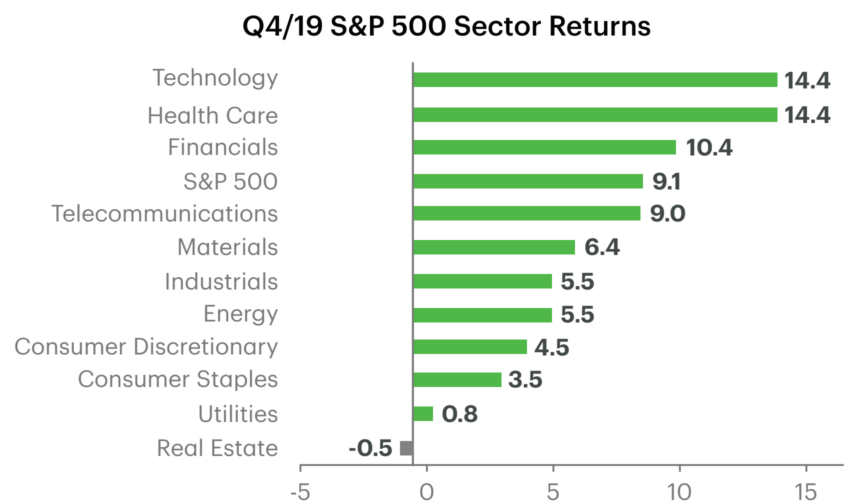
Indices	2019 Return
S&P/TSX Composite	22.88%
S&P/TSX Preferred Share	-2.02%

U.S Equities

Indices	2019 Return (C$)
Dow Jones Industial Average	19.40%
S&P 500	25.25%



Source: Bloomberg Finance L.P., as at December 31, 2019. Index Total Returns.



Source: Bloomberg Finance L.P., as at December 31, 2019. Index Total Returns.

Fixed Income

Since the precipitous drop in interest rates in late 2018 and early 2019, fixed income movements have been limited. After three separate quarter percentage point rate cuts by the Federal Reserve (Fed) in the U.S., TD Economics is forecasting no further cuts in 2020. Unless the economy falters, the U.S. Fed would be hard pressed to move interest rates in an election year. Canada was able to maintain their short-term rate throughout the year, but TD Economics is forecasting a .25% cut early in 2020 given the recent weakness in economic indicators.

Commentary

The equity markets exited 2018 on a very sour note as Canada and the U.S. each experienced negative double digit returns during the last quarter of that year. How did the markets perform so well in 2019 when we had several major events that historically would have torpedoed equity markets? Some of those highlighted are:

- Trade dispute between the U.S. and China resulting in increased trade tariffs
- BREXIT
- Inverted yield curve signaling a potential recession in North America
- Increase in Canadian consumer debt service ratio to all-time highs and matching the 2007 highs
- Drone attacks on Saudi oil storage facilities
- Drone attack on an Iranian Army General
- Civilian unrest in Hong Kong
- Impeachment proceedings on the U.S. President
- Meaningful drop in the Global Purchasing Managers Index

Many of the above issues are not yet resolved and will continue to weigh on the minds of investors, along with new and unexpected world events as they unfold. The primary underlying driver of returns this past year was earnings multiple expansion (P/E ratio increase) rather than underlying earnings. Given the very positive year of returns for the equity markets this past year, and valuations at or near full value, I expect the market to be more dependent on company earnings in 2020. If this is the case, then I would anticipate equity markets to deliver returns in the mid-single digit area.

2020 Federal Budget

We will probably start hearing about the upcoming Canadian Federal Budget and the potential for an increase in capital gains tax. The Liberal minority government may sidle up with another political party to get the budget pushed through and avoid a non-confidence vote. If that party happens to be the NDP, we could end up with an increase in the inclusion percentage for capital gains tax from 50% to 66%, or at worst, 75%. The NDP platform in the last election included a 75% inclusion rate. This issue last made headlines as we closed in on the 2018 budget. As it is impossible to predict what politicians will or will not do, I continue to manage portfolios as I always have. Buy and hold quality companies, add to them on weakness, maintain balance, reduce exposure if considered overvalued or overweight, and above all; manage to your specific objectives and risk tolerance.

TFSA and RSP

The 2020 TFSA contribution limit is $6,000 and the cumulative contribution limit is now $69,500.
For those of you who make your 2019 RSP contribution by March 2nd, 2020, the limit is 18% of earned income up to a maximum of $26,500. The 2020 limit is $27,230.

Tax Documents

We anticipate being ready to send out your tax packages by the end of March. If you would like us to send a copy of the package to your accountant, let us know and we will take care of that on your behalf.

Volunteer Time

Borger Wealth Advisory Group and our families spent a Saturday recently preparing a dinner once again for the residents of Ronald McDonald House. A fine spread of roast beef, carrots, potatoes smothered in gravy, salad, and chocolate cake were prepared and served on site. The beef once again was a contributor to our (actually my) stress level as we got closer to meal time and the meat thermometer slowly labored its way up. All went very smoothly and the residents were very appreciative of our efforts.

Jay, Catherine, Madison and I thank you for your business and wish you and your family a healthy, prosperous, and safe 2020. We look forward to meeting with you in the New Year to review your specific needs and navigate your financial journey with experience, knowledge and commitment on your side. If you have any questions or issues you would like to discuss, we would be happy to receive your call.

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