**TD Wealth**

December 2018

# Market Update

## Happy New Year! Welcome to 2019!

Again I thank you for your trust and confidence. We take this very seriously, and it inspires us to focus on continuously improving what we do for you.

As is our tradition, in lieu of New Year cards or gifts we have made charitable donations in your honour. We set aside a percentage of all fees each year and through the years this tradition has resulted in over $300,000 of donations. The majority of these donations has gone to saving lives, taking care of the sick, feeding the hungry, and medica research.

## Important Topic: Predictions

Each New Year bring the barrage of predictions. The longer I work in this industry and read the many predictions made by "experts" the more I tend to dismiss them as unhelpful (I am being kind as many are quite damaging if followed). You may recall the following:

"An analysis of 28,000 specific predictions by 284 "experts" over 20 years showed that market predictions were "only slightly better than chance" and that simple extrapolation was far more accurate" (National Post, 9/30/17). In other words, the experts were only slightly better than flipping a coin and you would have beaten both by simple expecting the current trend to continue!

Think about that the next time you read stories or hear friends and colleagues discussing how the markets are about to crash or double.

Another example, Jim Rogers made a ton of money after founding the Quantum Fund with George Soros in the 1970s and retired in his late-30s to travel the world. Sometimes uber-successful people are the worst ones to listen to for advice because they become so overconfident in their abilities. Rogers very well may be a legendary investor but that doesn't make his crystal ball clearer than anyone else's:

2011: 100% Chance of Crisis, Worse Than 2008: Jim Rogers
2012: Jim Rogers: It's Going To Get Really "Bad After The Next Election"
2013: Jim Rogers Warns: "You Better Run for the Hills!"
2014: Jim rogers – Sell Everything & Run For Your Lives
2015: Jim Rogers: "We're Overdue" for a Stock Market Crash

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2016: $68 Trillion "BIBLICAL CRASH" Dead Ahead? Jim Rogers Issues a DIRE WARNING
2017: THE BOTTOM LINE: Legendary investor Jim Rogers expects the worst crash in our lifetime

Doomsayers prove right once and again. But even though a stopped watch can claim accuracy two times a day, I do not use one to tell the time.

## Conclusion

Predictions are easy and cost nothing … and one of the many will prove to be right. But we cannot know which.

Further, the one who is right can be fairly judged as lucky, as can be seen by the almost impossibility of finding someone who has gotten it right twice.

Do not let predictions factor in to your plan. Buy strong long-term investments, many of them, watch them closely and adjust as needed.

I attached one piece I do find useful. It reveals trends and focuses on the long-term.

## Important Topic: Four Good Reasons to Stay Invested

1. **Market timing is difficult, if not impossible, if not dangerous**
   Any experienced investor will admit that market timing is immensely challenging. It relies on accurate predictions (see above).
2. **Selling during a downturn is betting against the odds**
   Selling after a sharp decline is not only an attempt at market timing but it is a very poor one, coming too late.
3. **The likelihood of negative long-term returns are very low**
   Periods of sharp declines are often followed by periods of some of the most favourable returns.
4. **Volatility breeds opportunities**
   The resulting market provides investment opportunities providing our investment managers the ability to reposition their portfolios for the better. The lower the market falls the better the argument to invest not sell.

## Market Update – December 2018:

December was awful. The markets had hoped that with economic signals slowing (though still quite healthy) that the Federal Reserve would signal a slowing of interest rate hikes. They did, but only marginally. The disappointment translated into falls of 8-12% for most equity markets. Bonds were generally positive for the month, reminding us why we keep these lower (long-term) return positions in our portfolios.

**Looking forward there are several key points:**

1. Still very unlikely that we have a recession in the next 12-18 months. Before past recession there were many indicators pointing towards the possibility, currently we might have one or two.
2. One key indicator is when the yield curve inverts (short term rates rise higher than long term rates). We are almost there. This is a signal of a possible recession but 12-18 months out.
3. Getting out early would miss a lot of potential upside (see above)
4. Inflation has been moderating and this negates the need to increase interest rates. Further, very few places in the world are offering attractive bond yields so a small increase becomes more meaningful. The Fed has reasons to slow or even stop rate increases.
5. Earnings may slow but are still expected to set new records. We will not see 20% earnings growth that was triggered by Trump Tax cuts, but we are expected to continue to see growth.
6. Majority of companies and countries are seeing continued attractive growth
7. With the recent fall in prices the valuations can now be described as "Below Fair Value", slightly undervalued.

Looking forward, the economy is performing just fine by most measures (few signs of an economic downturn in the near future), political uncertainty has increased but market volatility remains at historic lows, and inflation remains benign. We hold our positions and continue to invest cautiously.

For the quarter the bond market was up 0.8%, the Canadian market was down 9.7%, the US market was down 15.0%, International markets were down 13.7%, the Emerging markets were down 4.0%, the REIT market was down 6.9% and the preferred market was down 11.6%. (Reuters Dec 31st, 2018)

For the year the bond market was up 1.0%, the Canadian market was down 7.9%, the US market was down 6.2 %, International markets were down 15.4%, the Emerging markets were down 8.9%, the REIT market was down 6.1% and the preferred market was down 8.7%. (Reuters Dec 31st, 2018)

Have a great month and a great 2019, and let us know if there is anything we can do for you,

Meir

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