TD Wealth

Smart Investor

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Tax-Free Savings Account (TFSA)

Good news. Starting in 2019 the contribution limit to your TFSA has increased from $5,500 to $6,000.

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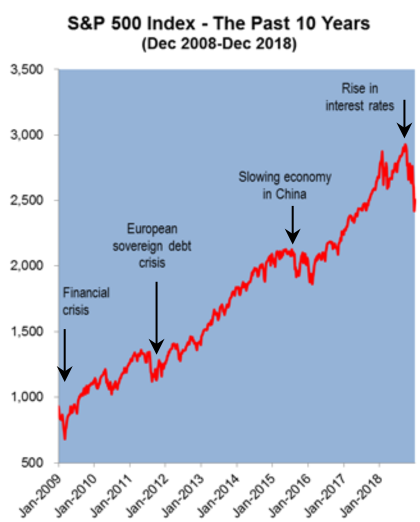
Look Back to 2018. Look Ahead to 2019.

Review of Markets

Fourth quarter correction

Major stock markets including ones in Canada and the U.S. suffered a downturn that started in October 2018. While it is never easy to pinpoint the exact reasons, it was generally believed that the correction was triggered by worries about rising interest rates, the impact of international trade tensions as well as geopolitical factors. For the year, the S&P/TSX Composite Index (TSX) was down 11.6%, whereas the S&P 500 Index (S&P 500) in the U.S. was down 6%. However, due to a weaker Canadian dollar, the S&P 500 return in Canadian currency was up almost 2%.

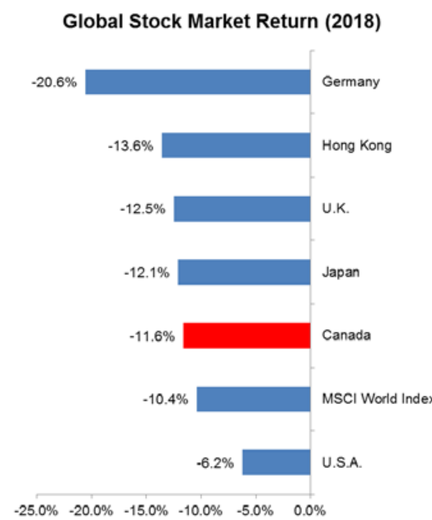


Source: Thomson Financial as at Dec 31, 2018

The S&P 500 had its first negative year since 2015. That was the year when China's growth dropped, crude oil prices fell, and the end of loose monetary policy in the U.S. began to be felt. The chart above traces the trajectory of the S&P 500 from the depth of the financial crisis early 2009 to the end of 2018. Despite setbacks in 2011, 2015 and 2018, the S&P 500 had a 10-year return of 10.75% a year on average. This by far outpaces the TSX performance in the same period of 4.8% a year.

We cannot predict the future, but we can draw two conclusions from the above. First is that we never have a shortage of things to worry about at any one time. Second is that after a correction, markets do tend to go up.

I will admit that I did not do a comprehensive review of all stock markets around the world, but a the following chart shows the one-year performance of the world's leading market indices in 2018, with Canada shown in red at -11.6%.



Source: Thomson Financial as at Dec 31, 2018

What Happened in 2018?

Looking at Google Trends, the top 10 searches that generated the most traffic in the U.S. in 2018 included a royal wedding, two international sporting events (Winter Olympics and World Cup soccer) and two hurricanes. None of them appeared to have been related to developments in the financial markets.

Seeing that list provided a dose of reality. The average citizen did not search for "Federal Reserve", "yield curve", "credit spread" or "China GDP". Sadly that's what I spend many waking hours reading and thinking about. I did get to enjoy the world cup though.

Quantitative Tightening
10 years ago, the U.S. Federal Reserve (Fed) and other central banks implemented a loose money supply policy known as quantitive easing (or, QE). The QE years involved these central banks purchasing massive amount of bonds, which led to extremely low interest rates. As economies in the U.S., and Canada picked up, QE shifted into neutral, and then eventually into a tightening phase. The correct way to look at this is not that rates shooting up, but that they are merely returning to their normal range; we are still shy of historic average rates at this point.

Trade Tension
From the re-negotiation of the North American Free Trade Agreement (NAFTA), to imposing tariffs on a range of imports from aluminum to autoparts, the U.S. administration has escalated the temperature of global trade discussions to a new level. As economists will tell us, every party suffers in a trade war. In fact, U.S. businesses and consumers are paying the price through higher import costs. Together with higher interest rates, this may put a damper on global economic growth prospects.

Taxes and Deficits
The substantial cuts to U.S. corporate taxes in 2018 provided what some commentators called a "sugar high" to the economy and stock market. It helped boost earnings but the tax cuts led to more shares buy-back than significant investments. Moreover, the loss in tax revenues is now projected to lead to record deficits for the foreseeable future.

All the Rest
What else happened? Prime Minister Theresa May spent two years negotiating a deal for an orderly exit from the European Union(Brexit). That deal, or any deal at all, to me, is far from a certainty.

Look Ahead to 2019

While I am not in the business of making predictions, or trying to time the market, it is my job to study economic trends and global developments and position client portfolios accordingly.

Slower growth but not recession
"Economists have correctly predicted nine of the past five recessions" quipped Paul Samuelson, reknowned economist and Nobel Laureate. There is a lot of talk about the slowing down of global growth brought partly by trade tensions and higher interest rates. But as I wrote in the last Smart Investor, the classic signs are not here (yet).

A return to "normal" volatility
We may not see the same whipsawing of 2018, but remember, some volatility is normal. Markets are likely to remain sensitive to economic indicators including interest rate announcements.

Stay focused on your goals
In the past few weeks I have had many conversations with my clients. Seeing one's portfolio go down is never a happy experience (psychologists call that "loss aversion"). But we talked about meeting goals like retirement income, funding children's education or leaving a legacy. A temporary market setback is rarely going to affect those long-term goals.

Playing defence
With the correction in December, equities are now reasonably priced. However, with uncertainty still in the air, it may be prudent to take a slightly defensive stance in your portfolio. Keeping some cash on hand will allow you to take advantage of market dips to pick up some temporary bargains along the way.

Shiuman's Corner

River View

London skyline (photo: Shiuman Ho)

Each year I print my own Christmas cards using a photo I had taken. On my last trip to London to visit my son, we wanted to scout out the perfect location to watch the sun set. We rode bicycles from the bike share scheme along the River Thames until we came to Waterloo Bridge. We each set up our cameras on tripods trying to capture the tall buildings and St. Paul's cathedral in the City of London (the financial district), The Shard, the tallest building in London and of course, the famous river itself. It was the start of the evening rush hour and many commuters were crossing the bridge. I helped a few tourists take a photographic memento of their visit. Over the next couple of hours the light faded gradually as the sky scrapers lit up. When travelling I like the convenience of having the iPhone X, which boasts a high quality camera, with me all the time. However, there are some situations which requires a SLR (my "proper" camera), such as when I want to take night time shots. The above picture involved a long exposure, as well as a long wait for just the right amount of residual natural light and lights from the buildings. It was a good bonding opportunity with my son. To see a time lapse video of the change in lighting, you can visit this link: https://bit.ly/2sNwsuw