TD Wealth

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Economic & Market Update

Summer Reading Edition – Fun with Investment Maxims!

After obtaining my CFA (Chartered Financial Analyst) charter in 1993, it quickly became apparent that my formal education in finance did not adequately address what I was witnessing as a newbie in the workplace. The behavior of investment industry experts did not correlate well with those elegant theories I had been taught. As a result, I embarked on an effort to read about 100 of the most critically-acclaimed investment books written over the last century to fill in some of those knowledge gaps. Those books were often written by authors examining the conduct of investment experts in an attempt to make sense of it all. Along the way, I wrote down a number of notes that helped to explain much of what I was seeing. A particular book entitled *The Classics: An*

Investment wisdom can often be distilled into a short statement.

These observations generally reaffirm that investing is simple but hard (as opposed to complex and easy).

Investor's Anthology[1] contained a treasure trove of these observations, some of which I thought I would share with you along with a comment or two of my own:

Never confuse brilliance with a bull market.

Many investment managers gain a terrific reputation while markets are rising. However, when markets turn around and start falling, it becomes evident that they were actually better at self-promotion than they were at managing a fund.

This maxim also has a few cousins: "A rising tide lifts all boats." And, attributed to Warren Buffett: "You can't tell who not wearing shorts until the tide goes out."

No trees grow to the sky.

Facebook, Amazon, and Google are probably hoping that this isn't true. But, it's the reason why Exxon, Microsoft, or Cisco Systems are not ruling the entire world by now.

The market is a random walk up a 9.3% grade.

Over the short-term, the stock market is a noise-filled guessing game. Over the long-term, it tends to reflect the growth in the overall economy.

If anybody really knew, they wouldn't tell you.

So, why are all these people on TV telling me?

All growth is temporary.

Related to trees not growing to the sky. Economies grow and contract. Stock markets go up and down.

Not to decide is to decide.

If money has been accumulated, you can't avoid making a decision regarding what to do with it. Putting money under the mattress *is* an investment decision.

Somewhat related to a Mark Twain quote: "Sometimes doing nothing is doing a lot." A

[1] Charles D. Ellis and James R. Vertin, *Classics: An Investor's Anthology*. New York. Business One Irwin, 1988.

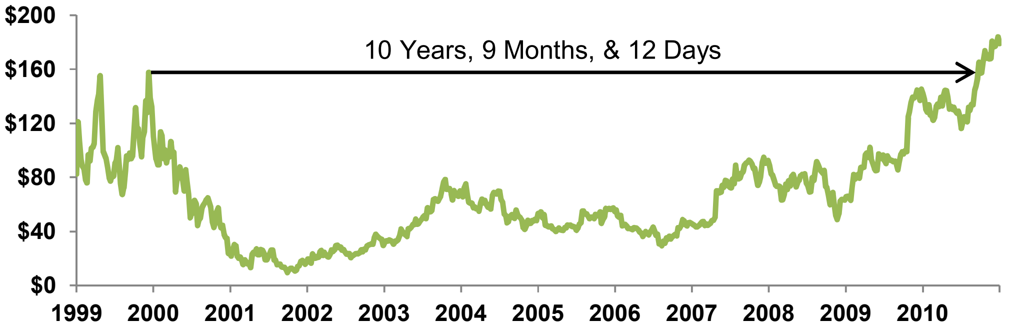
decision not to engage in a transaction may be the result of significant deliberation.

There are no holds.

Even though an investment may remain in a portfolio, it should be constantly revaluated to determine if it should be sold. Sometimes it's easier for an analyst to apply a "hold" rating on the stock than mustering up the conviction to say whether it should be bought or sold.

Growth will bail you out, if you live long enough.

Chart 1:
Amazon.com Inc. (in Canadian dollars)



Source: Bloomberg Finance L.P. as of 8/2/2018

Every time a trade is made, somebody was wrong.

At the market price, there are two completely opposing views between the last buyer and seller.

Anyone who wants to give youth a greater say hasn't been to a rock concert lately.

Well, maybe that's a bit unfair. But, 47% of fund managers today were too young to be managing money during the Global Credit Crisis and Great Recession in 2009.[2]

The stock does not know you own it.

So, why would anyone "love" a stock?

[2] Natasha Doff, "Is Wall Street's Untested Millennial Majority a Risk?" Bloomberg BusinessWeek, February 2018.

Own West Coast companies in bull markets, Boston companies in bear markets.

Even three decades ago, growth companies tended to be in California while stodgy, dependable dividend-paying companies tended to be in New York and Boston.

A portfolio that goes down 50% and comes back 50% is still down 25%.

Percentages are not additive. But they don't explain that on the financial news channels.

There are only 17 really great companies in the U.S.

Warren Buffett once suggested that it would be a good idea to imagine a twenty-hole punch card representing a lifetime limit on the total of investments that could be purchased. If that was the case, how many would you buy in your first week?

There are no "one-decision" stocks.

"One-decision" or "hold-forever" stocks were in vogue in the late 1960s and early 1970s. Some examples were Polaroid and Eastman Kodak. Often it is hard to imagine a high-quality company stumbling, but they will almost always hit a rough patch.

Fewer poor investment decisions are made in February than any other month.

Translated: the rate of poor investment decision making is a constant.

Two plus two equals four.

Yet, many analysts and promoters will try to get me to forget this.

Babe Ruth once led the league in strikeouts.

If one's success rate in selecting market-beating investments is greater than 60%, there should be enough homeruns in order to outperform the benchmark.

There are no greater fools.

Taking a flyer on a hot stock will often require a greater fool to buy it later.

You can be 200% wrong when you switch.

Jumping from one horse to another will be doubly painful if the new horse trips and falls while the first horse goes on to win the race.

Bad as it is, there are some people who'd like your job.

The market can go through some difficult periods, but least portfolio management is mostly indoor work and does not require the lifting of heavy objects! People would be surprised at how often someone on LinkedIn.com basically tells me that I should hire them so that they can replace me.

A good portfolio manager never asks a question unless he knows the answer.

One exception is to get people at a competitor company to gossip about the company on which I am doing research. Otherwise, with a Bloomberg terminal and the internet, I can get most of the answers that I want. If I do ask a question where I know the answer, I am really just trying to size up management.

If the idea is right, pennies on the price won't matter.

A few pennies in price, or even a couple of dollars, won't matter as much as one would think if it turns out to be a good investment and held for a few years.

You can always tell a Harvard man, but you can't tell him much.

Ivy Leaguers are more of a presence on Wall Street and the U.S. East Coast. However, this maxim can often be applied to young very well-educated newcomers to the industry.

Madison Square Garden wouldn't hold all the guys who claim to be at the Ranger games.

Everyone might talk like they are a winner at managing investments. But, we know that they can't *all* be.

Model Portfolio Update[3]

The Charter Group Balanced Portfolio
(A Pension-Style Portfolio)

	Target Allocation %	Change
Equities:		
Canadian Equities	15.0	None
U.S. Equities	35.7	None
International Equities	9.3	None
Fixed Income:		
Canadian Bonds	25.5	None
U.S. Bonds	2.5	None
Alternative Investments:		
Gold	7.5	None
Commodities & Agriculture	2.5	None
Cash	2.0	None

No changes were made to the specific holdings or the asset allocation in The Charter Group Balanced Portfolio model during July.

Stocks are still mostly ignoring all the bickering over trade. It helped that the U.S. economy continued to grow at a significant pace. Towards the end of July it was reported that U.S. growth for the 2nd quarter clocked in at 4.1% on an annualized basis. This and the reports of better-than-expected U.S. corporate earnings satisfied investors. U.S., Canadian, *and* international stocks all responded well.

In theory, trade wars tend to reduce overall growth. However, investors don't pay much homage to theories. We will have to potentially wait for a number of quarters before the resulting impact becomes evident. At that point, investors could react.

No changes were made to the Balanced Portfolio during July.

Stocks in the U.S., Canada, and developed international markets were the stars of the month, responding to better economic growth and corporate earnings.

Meanwhile, stocks mostly ignored the trade war rhetoric.

[3] The asset allocation represents the current *target* asset allocation of the Balanced Model Portfolio as of 7/16/2018. The asset allocations of individual clients invested in this Portfolio will differ because of the relative performance of the asset classes since the last rebalancing and because of differences in the timing of deposits and withdrawals. The Balanced Model Portfolio is part of a sequence of five portfolios ranging from conservative to aggressive: Conservative, Balanced Income, Balanced, Balanced Growth, and Growth.

It should also be noted that trade-related diplomacy can be fluid. The U.S. might suddenly come to agreements with trading partners in order to avoid the economic fallout or if there is push back from politically important industries. So, we don't know what the result of all of this is going to be and the market appears unwilling to make a speculative wager at this time.

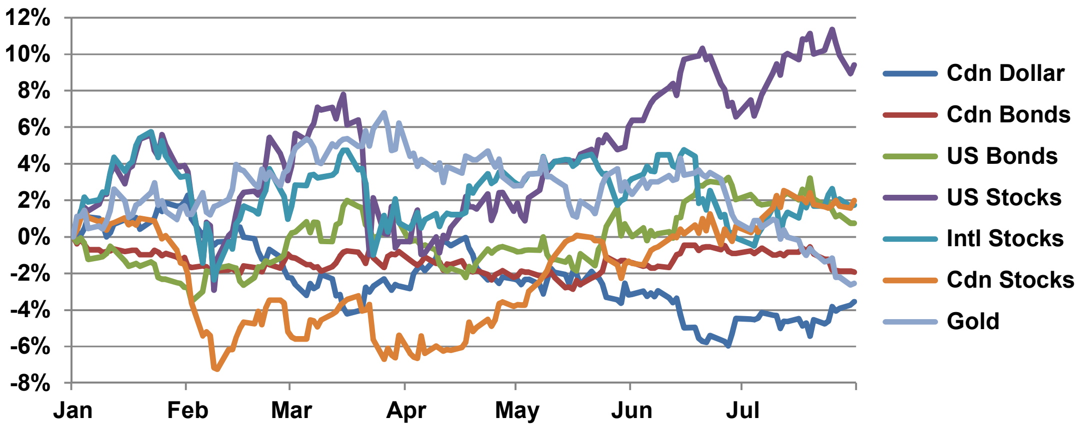
Economic theories are being used to forecast the impact of trade wars. But stocks don't pay much attention to theories.

One area that might get the market's attention in the short-term is interest rates. Although many U.S. politicians were doing an end zone dance when the strong economic numbers were released, they may not be so happy if the U.S. Federal Reserve decides that it has to be more aggressive to cap any resulting inflationary pressures with more interest rate hikes.

The stronger economic growth in the 2nd quarter could mean more interest rate hikes in the U.S.

Below is the Year-to-Date 2018 performance of the asset classes that we have used in the construction of The Charter Group Balanced Portfolio (**Chart 2**).[4]

Chart 2:
2018 Performance of the Asset Classes (in Canadian dollars)



Source: Bloomberg Finance L.P. from 1/1/2018 to 7/31/2018

[4] Bloomberg Finance L.P. – The Canadian dollar rate is the CAD/USD cross rate which is the amount of Canadian dollars per one U.S. dollar; Canadian bonds are represented by the iShares Canadian Universe Bond Index (XBB); U.S. bonds are represented by the iShares Core U.S. Aggregate Bond Index (AGG); U.S. stocks are represented by the iShares Core S&P 500 Index (IVV); International stocks are represented by the iShares MSCI EAFE Index (EFA); Canadian stocks are represented by the iShares S&P/TSX 60 Index (XIU); Gold is represented by the iShares Gold Trust (IAU).

Top Investment Issues[5]

Issue	Importance	Potential Impact
1. China's Economic Growth	Significant	Negative
2. Long-term U.S. Interest Rates	Moderate	Negative
3. Canadian Dollar Decline	Moderate	Positive
4. U.S. Fiscal Spending Stimulus	Moderate	Positive
5. East Asian Geopolitics	Moderate	Negative
6. NAFTA & Global Trade Wars	Moderate	Negative
7. Short-term U.S. Interest Rates	Medium	Negative
8. Massive Stimulus in China	Medium	Positive
9. Canada's Economic Growth (Oil)	Light	Negative
10. Middle East & Russia Geopolitics	Light	Positive

[5] This is a list of the issues that we currently deem to be the ten most important with respect to the potential impact on our model portfolios over the next 12 months. This is only a ranking of importance and potential impact and *not* an explicit forecast. The list is to illustrate where our attention is focused at the present time. If you would like an in-depth discussion as to the potential magnitude and direction of the issues potentially affecting the model portfolios, I encourage you to email me at mark.jasayko@td.com or call me directly on my mobile at 778-995-8872.

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The Charter Group at TD Wealth Private Investment Advice is a wealth management team that specializes in discretionary investment management. For an annual fee, we manage model portfolios for private clients and institutions. All investment and asset allocation decisions for our model portfolios are made in our Langley, B.C. office. We do not outsource any of the decision-making for our model portfolios – there are no outside actively-managed products or funds. We strive to bring the best practices and the calibre of investment management normally seen in global financial centres directly to the Fraser Valley and are accountable for the results.

Accountability is further enhanced by the fact that we commit our own investable wealth to the same model portfolios in which our clients are invested.

The information contained herein is current as of August 2, 2018.

The information contained herein has been provided by Mark Jasayko, Portfolio Manager and Investment Advisor and is for information purposes only. The information has been drawn from sources believed to be reliable. Graphs and charts are used for illustrative purposes only and do not reflect future values or future performance of any investment. The information does not provide financial, legal, tax or investment advice. Particular investment, tax, or trading strategies should be evaluated relative to each individual's objectives and risk tolerance.

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