TD Wealth

The Charter Group Monthly Letter

August 2019

Issue 51

Mark Jasayko, MBA, CFA
Portfolio Manager & Investment Advisor
TD Wealth Private Investment Advice
The Charter Group, Langley, BC

Economic & Market Update

Summer Reading Edition: Fun with Investment Maxims 2.0!

Last summer, in the August 2018 edition of *The Monthly Letter* (issue 39), I wrote about a number of adages that have been applied to the investment industry from decades past. There are a few more maxims on the list worthy of highlighting:

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).

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 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:

If you take a starving dog and make him sleek and prosperous, he will not bite you; this is the principal difference between man and dog.

Some who make it big in this industry forget where they came from. It's a human condition. And, a big reason why dogs are so likeable (unfortunately, even remarkable dogs don't make for remarkable investment industry professionals).

Never say never.

Generally, absolute statements in this industry are often doomed for failure. "That will never happen." It's different this time." And so forth.

A watched pot never boils.

Kind of violates the preceding maxim. However, I have friends who are day-traders who will buy a stock and then continually look at the price in order to validate the wisdom for the purchase. Time often passes slowly when staring at the quote screen and it can feel like it is taking forever. And, often the position is sold before it starts "boiling."

There are no cabs when it's raining.

Hedges (like gold for example) become expensive after the panic hits.

Sell the stock when the company announces a new corporate headquarters.

This seemed to be more apt when interest rates were high which would really test a company when it was diverting precious capital into a vanity project. However, with lower interest rates, capital is easier and cheaper to get and therefore not as precious. Apple and Amazon have built colossal new headquarters without much apparent detriment to shareholders. It interest rates ever rise significantly again, this maxim could

---

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

come back into vogue.

A stock well bought is a stock half sold.

Over-confident investors easily forget that there is someone else on the other side of the trade who also think they are making the right decision.

Risk is what's left over after the bad news hits.

Bad news is not risk *per se*. It's the market's reaction to the bad news that counts.

A bright and energetic person can make all the mistakes in this business in five years, but fools and sluggards can take a lifetime.

Similar to something I heard early in my career: "There's a big difference between someone having 30 years of experience versus someone having one year's experience thirty times over." It's okay to make and admit to mistakes. But one needs to learn from them.

You only need two research sources on a stock if one is a bull and one is a bear.

Insight gained from contrasting opinions is golden.

Analysts write long research reports when they don't have time to write short ones.

It is surprising how many 10-page research reports I have read that say nothing. Conversely, honest, clear, and short executive summaries were often enough to push me towards a decision.

The budget will not be balanced in your lifetime.

Our Prime Minister has not worked in the investment industry to know better, so we'll cut him some slack on his famous budget-related comments.

Someone will always have a better record.

You can't beat luck.

Trust everyone but cut the cards.

Similar to Ronald Reagan's policy of "Trust but verify." It is actually a Russian proverb, but Reagan used it effectively when engaging in nuclear arms negotiations with the Soviets.

A lot of things aren't worth knowing.

I wish there was some way to automatically categorize things like this. It would cut my research and reading time by more than half.

You can only buy for growth, yield or assets.

Stories, by themselves, are not enough. They have to translate into tangible financial results. We see this with the excitement regarding transformative companies and industries (ie: electric cars, cannabis). But, investors eventually need sustainable profit margins in order to harvest the benefits of investing over the long-term.

Two things cause a stock to move – the expected and the unexpected.

In other words, expect anything. Even buying a conservative investment does not protect oneself from unexpected news.

Sell down to you sleep point.

Insomnia is a terrible price to pay for not acknowledging risk tolerance.

You can't spend relative performance.

Relative performance might be a useful for explaining the current situation, but some fund managers behave like it is the ultimate goal. Investors can only spend the money generated from absolute performance at the end of their investment horizon.

Model Portfolio Update[2]

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	24.5	None
U.S. Bonds	3.5	None
Alternative Investments:		
Gold	7.5	None
Commodities & Agriculture	2.5	None
Cash	2.0	None

There were no changes to the specific holdings or the targeted overall asset allocation in the model portfolios during the month of July.

Results were helped by the prospect of lower U.S. interest rates which helped fuel U.S. stocks higher. The U.S. Federal Funds Rate was lowered by 0.25% on July 31 with suggestions by the U.S. Federal Reserve Board that more rate cuts were coming between now and the end of the year.

Talk of rate cuts was enough to offset worries about the brewing trade war between the U.S. and China. The exposure to international stocks was adversely impacted by the potential trade fallout, but we don't have a significant weighting to this asset class which helped to mitigate the result. International stocks also bore the brunt of investors' concerns regarding global economic growth and manufacturing.

[2] The asset allocation represents the current *target* asset allocation of the Balanced Model Portfolio as of 7/9/2019. 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.

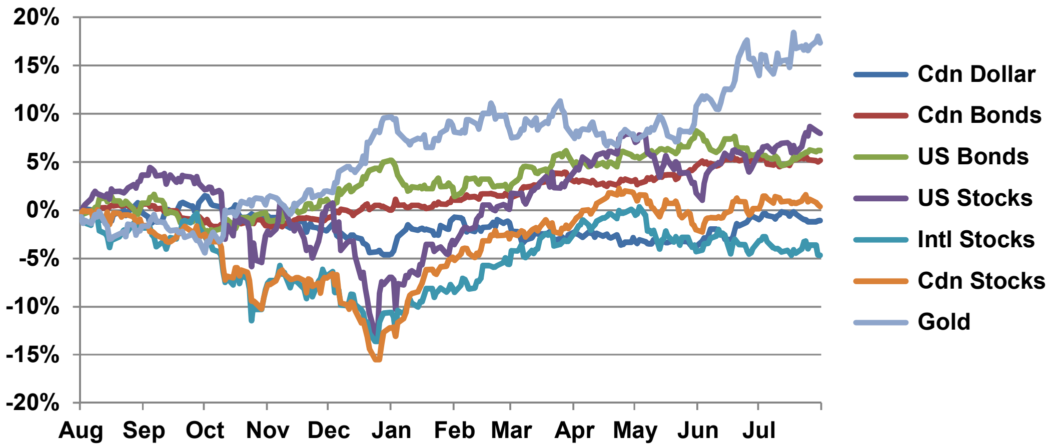
One very bright spot for the portfolios was the contribution from gold bullion which was up 2.84% in July (in Canadian dollar terms).[3] Geopolitical angst involving Iran disrupting oil shipments through the Strait of Hormuz at the entrance to the Persian Gulf appeared to add about $20 USD/ounce to the price of bullion. Curiously, the price of oil hardly rose at all (perhaps because of the slowing global economy reducing the demand for crude).

Going forward, it is still all about interest rates and government spending. We will have to wait and see if the U.S. Federal Reserve Board (the Fed) will follow through on their signaling to cut rates further. It is reasonable to expect President Trump's twitter barrages imploring the Fed to cut will continue. And, it is almost a fait accompli that U.S. government spending will accelerate as there was no Democrat opposition at all in response to the lifting of the debt ceiling by the Trump administration.

Below is the 12-month performance of the asset classes that we have used in the construction of The Charter Group Balanced Portfolio (**Chart 1**).[4]

Chart 1:

12-Month Performance of the Asset Classes (in Canadian dollars)



Source: Bloomberg Finance L.P. from 8/1/2018 to 7/31/2019

[3] Bloomberg Finance L.P. as of 8/8/2019.

[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); US bonds are represented by the iShares Core US 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. Canadian Dollar Decline	Moderate	Positive
3. U.S. Fiscal Spending Stimulus	Moderate	Positive
4. Short-term U.S. Interest Rates	Moderate	Positive
5. Global Trade Wars	Moderate	Negative
6. Long-term U.S. Interest Rates	Moderate	Negative
7. Massive Stimulus in China	Moderate	Positive
8. Stock Market Valuations	Medium	Negative
9. Canada's Economic Growth (Oil)	Medium	Negative
10. East Asian / South Asian Geopolitics	Light	Negative

[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.

TD Wealth

The
Charter
Group

Mark Jasayko, MBA, CFA | Portfolio Manager & Investment Advisor
Mike Elliott, BA, CIM, FCSI ® | Portfolio Manager & Investment Advisor
Laura O'Connell, CFP ®, FMA | Associate Investment Advisor
Kelsey Sjoberg | Client Service Associate

604 513 6218
8621 201 Street, Suite 500
Langley, British Columbia V2Y 0G9

The Charter Group 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 8, 2019.

The Charter Group is part of TD Wealth Private Investment Advice, a division of TD Waterhouse Canada Inc. which is a subsidiary of The Toronto-Dominion Bank.

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.

Certain statements in this document may contain forward-looking statements ("FLS") that are predictive in nature and may include words such as "expects", "anticipates", "intends", "believes", "estimates" and similar forward-looking expressions or negative versions thereof. FLS are based on current expectations and projections about future general economic, political and relevant market factors, such as interest and foreign exchange rates, equity and capital markets, the general business environment, assuming no changes to tax or other laws or government regulation or catastrophic events. Expectations and projections about future events are inherently subject to risks and uncertainties, which may be unforeseeable. Such expectations and projections may be incorrect in the future. FLS are not guarantees of future performance. Actual events could differ materially from those expressed or implied in any FLS. A number of important factors including those factors set out above can contribute to these digressions. You should avoid placing any reliance on FLS.

Index returns are shown for comparative purposes only. Indices are unmanaged and their returns do not include any sales charges or fees as such costs would lower performance. It is not possible to invest directly in an index.