TD Wealth

Patience is a Virtue

An exclusive newsletter from William Barlow, CFA, CIM®, B.Sc., Vice President, Portfolio Manager, TD Wealth Private Investment Advice

2019 Vol. 6 of 6

He that can have patience can have what he will

-Benjamin Franklin

Moving the Markets:

With interest rates stable and a phase one trade deal complete, markets have been afforded a period of relative calm. Stability tends to breed instability, and markets never move up in a straight-line, so the Coronavirus has stepped in to fill the void for the time being

William Barlow, CFA, CIM®, B.Sc.
Vice President, Portfolio Manager
TD Wealth Private Investment Advice
T: 416 512 6676
TF: 800 382 4964
F: 416 512 6224
william.barlow@td.com
willbarlow.com

Ida Solie
Client Service Associate
TD Wealth Private Investment Advice
ida.solie@td.com
T: 416 512 7623

According to George Soros, the Wall Street legend credited with breaking the back of the British Pound in 1992, "good investing is boring." This seemingly innocuous quote has important implications that, in my experience, are lost at the most critical moments in time. The 4th quarter of 2018 and the full year for 2019 are two great examples of why this is so, and are worth exploring to help be on our best behavior when history rhymes or repeats.

Although they were unusual periods by average historical standards, investment returns in 2018 and 2019 aren't unusual when viewed with the smoothing effects of averaging, and most importantly shouldn't have us deviate from a carefully considered strategy and plan. 2018 saw a sharp decline in risk assets, especially in the 4th quarter, while 2019 saw the market claw those losses back and move higher as well. So what does this mean as it pertains to meeting one's objective, whatever that may be? At the risk of sounding flippant, it means that one year doesn't matter, and that our focus should be on what happens over many, many years.

I'm taking a bit of a liberty here to make a point. In order to achieve a successful outcome one needs to aggregate many years of returns. Having said that, for most investors, if one year of returns is added or subtracted from their time horizon, the impact should be relatively small one way or the other. Take for example the retiree who is 70 years old and has modest income needs relative to their portfolio as a whole. Assuming a time horizon that potentially spans decades, one year accounts for roughly 5% of their investing lifetime. Not considering compounding effects, this would weight a 20% gain or loss at a mere plus or minus 1%. Not immaterial, but also not to the point of making or breaking one's plan.

The real magic happens over many years, which for most of us is hard to grasp. We're bombarded by news of pending doom and gloom from sophisticated looking people who are employed by sophisticated sounding institutions, consulting firms, and 'think tanks.' If this distraction weren't tricky enough, it's not uncommon for celebrities to pile on and throw in their two cents as well! The challenge for us all is to look through the noise and understand that time is an asset, and the ability to think in terms of one's own time horizon is critical to success.

So whether it was a year to remember or a year to forget, when assessing results come year end, the key questions to ask are did we stick with the long-term plan that we built and agreed upon? And has anything in our circumstances changed to the point where the strategy needs to be changed as well? Most of the time the answer will be yes and no respectively, and if that is the case there is little to do other than what you're doing.

The Barlow Wealth Management Group

What I'm Reading: *The Man Who Solved the Market: How Jim Simons Launched the Quant Revolution* by Gregory Zuckerman. For those of you interested in financial markets this is an absolute must read. This was easily one of the most interesting and entertaining investment books I've read, with the one caveat being that having an interest in finance is probably a prerequisite for most. Jim Simons, the founder of Renaissance Technologies, is arguably the most successful and secretive money manager in history based on track record and how he was able to get there is nothing short of fascinating.

Who I'm Following: It's the time of year where asset managers bombard the news with their forecasts for the upcoming year. There is scant evidence that following these subjective interpretations of complex events is worth doing. Take for example CIBC's 2019 forecast which recommended a position of overweight position in cash and energy stocks which was in hindsight among the few poor decisions one could have made. A far better approach is building a plan with an evidence based approach and sticking with it for over a decade– it's that easy!

Market Folly: Similar to the point made above about being wary of who one follows, Eddy Elfenbein at the Crossing Wall Street Blog breaks down forecasts and concludes that there is just about zero correlation between market pundits predictions and how the market behaves after said predictions. As mentioned many times, there are ways to potentially tilt the odds in our favor, but the exercise of making a forecast seems to carry little in the way of value. http://www.crossingwallstreet.com/archives/2020/01/about-those-wall-street-forecasts.html

Reason to be Optimistic: There are plenty of reasons to be optimistic, but in this case I'll point to some market positives which are worth indicating as 2020 kicks off and as I receive more inquiries about taking the gains of 2019 and waiting for the big pull back. Valuations expanded in 2019, however not nearly to the point where it would be considered a fat pitch to take chips off the table or alter one's plan. Warren Buffett isn't likely to be drooling over the current market as a whole, but on the flip side, it isn't a situation where valuations are stretched to the point of not making sense (technology stocks in the late 90's or Japanese stocks in the late 80's being the primary examples). Also, economic indicators appear to be rebounding, interest rates remain low, and earnings growth is expected to rebound. We have no clue how this plays out, but the important point is that there isn't anything screaming that a change in one's plan would be a wise decision at this point.

Outside the Office: The holiday season saw Maria and I make two trips to Buffalo and spend a lot of time with family and friends. Most importantly, our kids had a great time and Henry in particular is starting to understand more fully what it is all about. With nothing planned over the next few months Maria and I are now entering the winter doldrums which is becoming a little easier as John and Max's nap schedules are lining up.

Select Benchmark Returns – December 31, 2019

Asset Class	YTD	1 Year	5 Years	Asset Class	YTD	1 Year	5 Years
S&P/TSX Composite (Canada)	19.13	19.13	3.12	CDN Bond Index	6.87	6.87	3.18
S&P 500 (US)	22.7	22.7	11.93	CDN Short Term Bond Index	3.09	3.09	1.74
MSCI Europe	24.59	24.59	5.69	CDN Long Term Bond Index	12.71	12.71	5.18
MSCI Emerging Markets	13.2	13.2	8.43	US$/CDN$	5.03	5.03	-2.23
MSCI Far East	18.62	18.62	7..71	S&P TSX Energy	21.69	21.69	-0.69
MSCI World	22.25	22.25	11.85	S&P TSX Materials	23.85	23.85	6.16

Source: TD PAIR, TD Securities

The Barlow
Wealth Management Group