TD Wealth

Items of Interest

An exclusive newsletter from William Barlow, CFA, CIM®, B.Sc., Investment Advisor, TD Wealth Private Investment Advice

2017 Vol. 4 of 6

"The fault is not in our markets, but in ourselves."
-William Shakespeare

Moving the Markets:

The TSX has been jittery all year with debt concerns, trade concerns, and geopolitical issues taking center stage. With this backdrop, the Canadian dollar has bucked the concern and rallied an amazing 13% since May rendering greenback denominated assets in purgatory for the year as well.

William Barlow, CFA, CIM®, B.Sc.
Investment Advisor
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
Assistant Investment Advisor
ida.solie@td.com
T: 416 512 7623

The Bank of Canada (BoC) and interest rates aren't necessarily the most exciting topics for bedtime reading, yet the recent rate increase here in Canada was a shocker reminiscent of a Steig Larsson thriller, or more recently, the end of Gone Girl. Understanding why this central bank action received so much attention from outlets worldwide is less important than an overall grounding in the importance of interest rates, and for the purpose of this note I'll do my best to expound on both the immediate implications and, more importantly, the long-term take-always. My over optimistic hope is that this will make for riveting weekend or bedtime reading!

To start with why the recent move was such a surprise, we need only look to the comments of Bank of Montreal Chief Economist Douglas Porter who called the BoC's communication preceding September's rate announcement 'an epic fail.' Mr. Porter was in good company in being surprised, as 27 of 33 experts polled by The Globe and Mail had forecast that the BoC would leave rates unchanged– no need to revisit the folly of forecasting here. The failure to communicate is noteworthy for some because typically central banks pay very close attention to their verbiage leading up to decisions and tip their hand well in advance so as to not spook the market. For what its worth I don't recall the so-called experts nailing the last two rate cuts from the BoC either so the blow back is a bit curious.

More importantly, having an idea of why the interest rate hike on September 6th happened (from 0.75% to 1%) will give us a better understanding of how it might effect the distribution of outcomes for the economy, and ultimately investment accounts as well. As a jumping off point it's worth noting that of the three policy tool available to central banks, interest rates are the most obvious in their implications and the most widely reported on (the other two policy tools are reserve requirements and open market operations). When an economy is growing and performing reasonably well, central banks increase interest rates in an attempt to prevent overheating and the creation of damaging bubbles. By increasing interest rates the cost of money becomes more expensive for marginal borrowers, and there is a likelihood that these loans would not be made given higher rates. On the flip side, as was seen in 2015 with the oil shock, if central banks are concerned with economic headwinds, interest rate cuts will decrease the cost of capital, allowing marginal borrowers easier access to capital in an attempt to stimulate overall growth.

If you've made it this far, you're likely making the connection that the interest rate increase is on the surface a vote of confidence in the Canadian economy in the eyes of the Bank of Canada. In fact, based on the statements from Governor Stephen Poloz, the BoC is pleased with the unemployment numbers along with inflation which are simplified, but key metrics of their evaluation. The cynics amongst us float alternative theories for the rate increase which are first that the BoC is currying favor with our neighbors to the South during trade negotiations given the US has been openly critical of week sovereign currencies. The second theory is that the BoC is moving quicker than they otherwise might in order to stress test Canada's housing market.

Regardless of the surprise, the important point in my opinion is twofold: interest rates moving up are an overall positive sign for Canada and the broader economy. Second, interest rates are still extremely low, and very accommodating relative to historical norms. Exaggerating the magnitude of the recent move, or worse extrapolating the last two hikes into the future would not make much sense and doesn't capture the long term importance of the rate discussion.

The Barlow Wealth Management Group

What I'm Reading: *Kissinger: A Biography* by Walter Isaacson. If you thought that all of my talk about looking through politics and focusing on the long-term areas that matter to your situation and the economy preclude me from reading about politics, you'd be wrong! This is my second straight Isaacson biography which was chosen for the similar Real Politic between Nixon, Kissinger, and Trump. The saying that everything old is new again rings true with tales of White House secrecy, hidden wire taps, and clandestine Russian attachés

Who I'm Following: New highs, blue skies! The market is indeed expensive and the slew of new highs in the U.S., which are nowhere to be found here in Canada as the TSX is down year to date, has many worried of a long over due correction and pick-up in volatility. The data suggests the new highs are not be feared, as the 25 new highs reached in 2017 fall well behind the 77 new highs reached in 1995. More importantly, after an all time high is reached in the S&P, the average price one year from the new high is positive 72% of the time

Market Folly: Boris Becker, according to Germany's Spiegel, joins a long list of celebrities in making extremely poor financial decisions. According to Spiegel, the 49 year old tennis star has squandered his 100 Million Euro fortune party due to poor performance with his Nigerian oil and gas shares. No comment necessary!

Reason to be Optimistic: We are helping the world in a positive way! Yes, this couldn't be more ambiguous and likely impossible to measure with any degree of accuracy, but putting this aside the World Economic Form has Canada ranked number one with respect to influencing world affairs in a positive manner

Inside the Office: We are very fortunate to welcome a new member to our team in Ida Solie! Ida will be valued associate and help in all facets of our practice, with a particular focus on ensuring our clientele are receiving best in class service. Our goal of providing focused, customized advice, with the highest level of attention to all of the families we work will be helped significantly by Ida's presence. Ida comes to us after successful stints in two other bank roles which both provided valuable, client facing experience in the industry. Prior to joining the workforce Ida received her undergraduate degree from The University of Toronto with a double major in Books and Media and Women's Studies

Outside the Office: Summer is officially, and sadly, over! Maria and I were able to manage one holiday to the West Coast with my parents and two children and one long-weekend for a friends wedding which both were great. Most importantly, my pre-summer goal of spending more time with John and Henry came to fruition and made the summer memorable to say the least

Select Benchmark Returns – To August 30, 2017

Asset Class	YTD	1 Year	5 Years	Asset Class	YTD	1 Year	5 Years
S&P/TSX Composite (Canada)				CDN Bond Index			
S&P 500 (US)				CDN Short Term Bond Index			
MSCI Europe				CDN Long Term Bond Index			
MSCI Emerging Markets				US$/CDN$			
MSCI Far East				S&P TSX Energy			
MSCI World				S&P TSX Materials			

Source: TD PAIR, TD Securities

The Barlow
Wealth Management Group