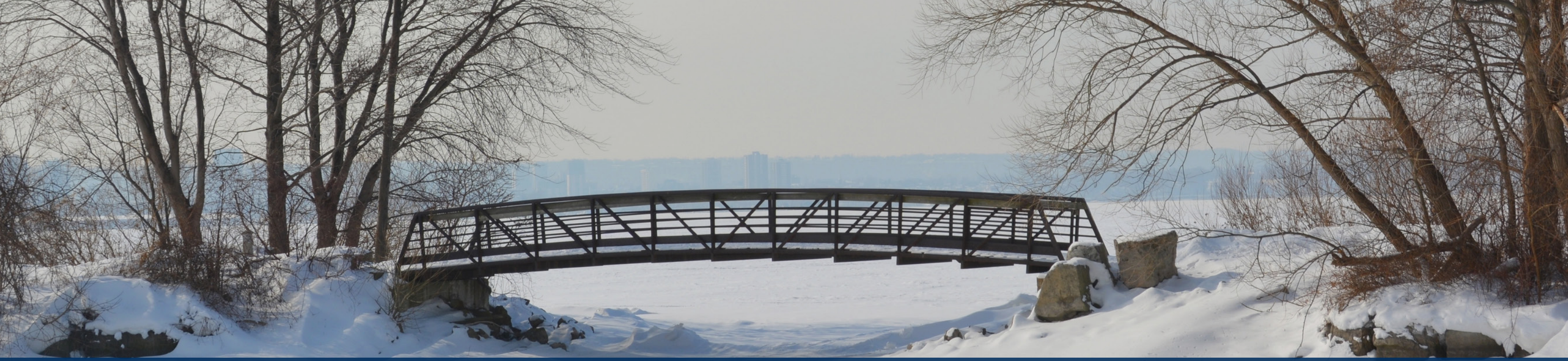
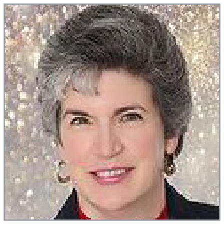


QUARTERLY COMMENTARY

WINTER 2022

Ginny Arnott-Wood
BA, CFP, CIM
Wealth Advisor &
Associate Portfolio Manager

905-333-1920
ginny.arnott-wood@raymondjames.ca



Laurie Smuk, B.Sc
Administrative Assistant
laurie.smuk@raymondjames.ca

Emily Wood, BA
Business Development Co-ordinator
emily.wood@raymondjames.ca

Arnott-Wood
Wealth Advisory of
Raymond James Ltd.

1455 Lakeshore Rd., Suite 204S,
Burlington, Ont. L7S 2J1
www.raymondjames.ca/ginnyarnottwood/

Seasonal Affective Disorder

I am a fortunate person. I generally sleep well, I am optimistic (a BIG bonus if you work in this business), and I am known to be pretty even-tempered. I am grateful every day for the family and animals I live with, the privilege of being able to work from home (doing a job I love) and having space and quiet around my rural home. Heck, I even like snow!

So, it came as a bit of a surprise to me last week when I realized that I was having an uncharacteristic case of the blues. There were some specific reasons to pinpoint – I always feel a little sad when it's time to put away the Christmas decorations, for example – but this year it seemed to hit me harder. The CAMH website describes Seasonal Affective Disorder (S.A.D.) as a form of depression that is most common during the winter months. It appears to be triggered by changes in the amount of sunlight. Changes in light may upset a person's circadian rhythm, which controls sleep-wake patterns and disturb neurotransmitter (e.g., serotonin, dopamine) functions. Normally I do not suffer from this affliction, but then I realized that, in addition to the subtle neurological effects S.A.D. might be having on me, this INTERMINABLE pandemic and the associated fears of getting sick, transmitting the virus to others, lockdowns, slowdowns, supply shortages, inability to plan for a vacation, and just overall "fed-up-edness" was at work (yes, that's a word, at least it is now. I'm an English major, I know these things).

I cannot help drawing a parallel with human mood swings and the market. I felt a sense of exuberance towards the end of 2021: at least in the Western world the pandemic seemed to be under control, vaccines were helping most people feel more confident about resuming a "normal" life again, and most of us were making plans to gather with others during the holidays. And the stock market hit all-time highs during the month of December. Despite signs of rising inflation there was a general feeling that surely 2022 would be a better year.

The year-end numbers looked pretty good:

	3-mth. return	1 yr. return	3 Yr. return	5 Yr. return
S&P/TSX composite:	5.7%	24.5%	7.7%	6.4%
Dow Jones Industrial Avg.:	7.4%	21.8%	8.6%	13.1%
S&P 500:	10.6%	30.0%	16.0%	16.9%
NASDAQ:	8.3%	29.4%	21.5%	22.2%

as of Dec. 31, 2021

Then we got Omicron-ed. Suddenly things didn't look so rosy: maybe kids wouldn't be going back to in-class learning right away, and maybe the staff shortages everywhere would impinge upon the ability for businesses to fulfill the plans they were building for the new year. Meanwhile the "transient" rise in the prices of most goods has persisted. Governments don't have many tools to combat this, but they can tighten the money supply by raising interest rates for short-term borrowing (to the banks), who then raise interest rates for everything from mortgages, car loans, business loans, and lines of credit. So not only are we going to pay more for everything, but the interest we pay on variable rate mortgages, credit cards, and any other borrowing is going to increase. How depressing.

Since the beginning of January this “depression” is being manifest in the markets. While some parts of the market appreciate rising interest rates (e.g., banks and insurance companies), others do not. The so-called “growth” stocks, such as many technology names, are not favoured in the short-term, especially those that depend on borrowed money to fuel their growth. Given tech stocks’ meteoric rise during the pandemic “stay-at-home” period, some investors have decided to sell and take some profits off the table. Until we see how much tightening will occur – perhaps three or four interest rate increases over the next year, for a total of an additional 1% for the Bank of Canada / Federal Reserve – we can expect the markets to be volatile for the next few months.

However, it is important to have perspective on this. As investors we have been spoiled over the past couple of years as our portfolios went up and up. While it is never fun to see a retreat, pull-backs are inevitable. Pandemic fatigue, persistent supply challenges causing bottlenecks, and now a geo-political drama are adding to uncertainty. The market despises uncertainty, hence the recent stock sell-off, particularly in the NASDAQ exchange where many tech stocks trade. Outcomes for all these worries will eventually be known, at which point risk-appetite inevitably returns. The only way to weather this storm is to hang on. In the long run good companies will do the same, so a well-diversified portfolio with high quality stocks should provide stability and a return to growth in due course.

Longer days and sunshine will return. Our moods will brighten. We will endure S.A.D. for now, along with a temporary retreat in the values of our portfolios. While staying vigilant to places where we might capture some profits, along with opportunities that lower prices offer to “buy low” we will prevail.

A few seasonal notes:

- RRSP annual contribution deadline is Tuesday March 1st.
- Annual “new” contribution to a TFSA is $6,000. Total contribution (if you’ve not contributed before) is $81,500.
- Has your situation changed lately? (e.g., marriage, divorce, retirement, inheritance). It’s a good time to create /update your financial plan. We can put a plan together that will help you chart a path to your desired future.
- Are you ready to write / update your will? We can help you with planning strategies to minimize taxes and structure your estate properly, ensuring an orderly transfer of wealth when the time comes. Raymond James Ltd. clients can take advantage of exclusive estate planning services such as power-of-attorney and corporate executor services through Raymond James Trust (Canada).

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