QUARTERLY REPORT

WINTER 2019

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Happy New Year!

Well, that was interesting. And I mean that in the Chinese curse, “may you live in interesting times” kind of way. Instead of having a “Santa rally” in December, the performance of global stock markets over the last three months of 2018 (and particularly December) was positively Grinch-y. From a relatively calm spring and summer, most markets ended September on a high note. October through December, however, saw global markets plummet, some with great velocity, whipsawing up and down along the way. (Note to self: check to see if the shares of Church & Dwight, makers of Gravol®, increased last quarter; likewise liquor producers).

There are several reasons investors became jittery about their stocks and started to move money to the sidelines. These include:

- Rising interest rates in Canada and the US
- Trade tariff concerns, especially between the US and China
- Signs of slowing growth in major global economies
- Slump in global commodity prices (including oil and gas)
- Unpredictability of the US White House in everything from trade policy to defense and foreign affairs
- Confusion over Brexit and the possibility of the UK leaving the EU with no deal in March 2019.

Less obvious, yet impactful selling occurred as a result of investors capturing tax losses (a common, end-of-the-year tax-saving strategy); and a group of hedge funds that were forced to liquidate holdings, as nervous investors opted to redeem their units when the 6-week redemption window opened on November 15th. According to Raymond James’ Chief Investment Strategist Jeffrey Saut, it is expected that about 150 global hedge funds will close forever as a result of billions of dollars of forced stock selling. One does not have to be personally invested in hedge funds to be affected: this selling pressure, added to the pull-back in share prices going on for all the other reasons, can create a downward spiral that affects everyone’s portfolio in the short term.

Tax-loss selling, and the hedge fund liquidations are over now, but there are still big question marks beside many of the other items. Some sectors benefit from lower energy prices, which helps keep inflation at bay (thereby reducing the need for central banks to further raise interest rates). The market hates uncertainty, so we expect the volatility to continue into 2019. Much of the negativity is more noise than substance, yet on any given day, a reckless tweet or a nervous headline can send the markets into a temporary spin.

The good news is that the economy here and in the US is still robust, with unemployment at historic lows and company earnings remaining steady. While we don't expect growth to continue at the feverish pace of the past few years, we still expect to see moderate growth throughout 2019.

The most important question: how do we position ourselves going forward? In difficult times, there are mainly two ways to protect wealth: diversification, including high quality stocks that pay dividends (so we get paid while we wait); and taking a longer-term view. Not selling into the negativity is prudent, and there are (or will be) some good buying opportunities for cash parked on the sidelines. My focus will continue to be responsible investments, i.e., companies that demonstrate good environmental sustainability, social responsibility, and good governance practices. These types of investments have proven that, over the long term, they do as well, if not better than companies that have lower scores in these areas.

As always, I invite you to contact me with your specific concerns and questions, and to see what buying opportunities may have presented themselves. In the meantime, we may need to keep the Gravol® handy for just a little longer.