QUARTERLY REPORT

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Rational Exuberance

Wow, what a difference a year can make! This time last year we were all licking our wounds from the beating the markets took at the end of 2018. In 2019 most markets not only recovered but rose to all-time highs. As of December 31st, 2019:

	2019 1 yr. return	Level	2018 1 yr. return
S&P/TSX composite:	19.1%	17,063	-8.89%
Dow Jones Industrial Avg.:	22.3%	28,538	-5.63%
S&P 500:	28.9%	3,231	-6.24%
NASDAQ:	35.2%	8,973	-3.88%

Many of the macro issues that gave investors the jitters at the end of 2018 have relaxed, if not been resolved:

- Additional interest rate hikes: Instead the central bankers, particularly the US Federal Reserve, did an about-face and dropped interest rates three times in 2019. This easing of the money supply eventually calmed those concerned that a recession was close at hand.
- Trade and tariff anxiety: A Phase One Trade Agreement has recently been signed between the USA and China which has dramatically changed the mood of investors (even though many tariffs remain). Uncertainty is what the markets fear most, so this initial trade agreement at least gives investors a sense of positive direction. The recent signing, finally, of the USMCA ("New NAFTA") hasn't hurt either.
- Brexit: While there remains much to be negotiated between Britain and the UK before the final departure takes place, the resounding re-election of Boris Johnson in December suggests that Brexit will happen, and likely in a relatively orderly fashion by the end of 2020.

We're halfway through January and the markets have continued the upward trend, with many stocks and indices reaching new heights. Besides the reduction of anxieties mentioned above, the North American consumer continues to spend. Employment is high, yet inflation remains around 2%, so the central banks don't have much reason to hike interest rates. Corporate earnings (which generally propel stock prices up over the long term) are stable if not growing, particularly in the tech sector.

Back in the 1990's at the height of the "dotcom" bubble, then Chairman of the US Federal Reserve, Alan Greenspan, used the term "irrational exuberance" to describe the frothiness of stock markets at the time. The phrase was interpreted as a warning that the market was overvalued. (This proved to be true). Today, with stock markets having reached all-time highs, many wonder how much farther up they can go. Based on the positive market forces mentioned above, many analysts I follow believe we are still in the mid-cycle of a secular bull market, which typically lasts from 15 to 20 years. If we consider that the last one started in March of 2009 (after the financial crisis), then we've got many years to go, suggesting that we are enjoying a period of "rational exuberance", supported by trends and fundamentals.

That doesn't mean there won't be pull-backs along the way. The last quarter of 2018 came close to being a "technical" bear market (down 20% or more, and short in duration). Some potential causes for a downturn in the future would be a spike in inflation and therefore interest rates; a major negative geopolitical event; or some other "Black Swan" event that no one could anticipate.

As we saw in 2019, however, the best way to protect your portfolio is to resist the urge to sell into the panic; to hold good quality stocks (the first place money goes back into once the fear has passed), ensure that it's diversified by industry, geography, and sector (because we never know which will be next year's winners), and to take a long-term view (usually 3-5 years or more). Accompanied by an appropriate level of fixed income (for stability and cash flow rather than growth), and some cash for short-term needs and bargain-hunting when prices fall, your portfolio should be able to withstand the storm and be ready to benefit from the next leg up.

Let's hope that 2020 sees a continuation of this secular up-trend.

A few practical notes for the upcoming tax-season:

1. RRSP deadline to contribute for the 2019 tax-year is Monday, March 2, 2020. The maximum contribution is 18% of earned income to a maximum of $26,500. For 2020 this maximum will be $27,230. (not counting unused contribution room from previous years).
2. TFSA additional contribution for 2020 is $6,000. Total contribution room for new accounts is $69,500.
3. Trading disposition summaries (which include capital gains / loss information) should be mailed out by the 1st week of April.
4. T-5 slips (for interest and dividends), T-4RRSPs and T-4RRIFs should be mailed out by the end of February
5. T-3 slips (e.g. from income trusts) have till March 31st to be mailed (though many are sent out earlier)

Many investors have discovered that they need to wait till early to mid-April to prepare their taxes, especially if they receive investment income from income trusts, REITs, or limited partnerships, as these tax slips take longer for companies to prepare and issue. Please contact me directly if you need more information regarding tax-reporting.