QUARTERLY COMMENTARY

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Latch On To The Affirmative

It's a new year and a new decade and negativity is all around us. That's why I've decided that we need a little extra positivity especially around this time of year. So with that in mind, this quarter's newsletter will only stress the good things that are happening out there! As the lyrics for that old song performed by Bing Crosby and the Andrew Sisters goes:

You got to ac-cent-tchu-ate the positive
E-lim-i-nate the negative
And latch on to the affirmative
Don't mess with mister in between
You got to spread joy up to the maximum
Bring gloom down to the minimum
And have faith, or pandemonium
Liable to walk upon the scene

And indeed, with regards to the markets there is a lot to be positive about! Last years' stock market returns were very strong and all investors benefited from that. Just so you know, historically when this happens there usually is a decent follow up the next year so although I am expecting higher than usual volatility I think we'll probably see a positive return in 2020 as well (don't expect as good a year as last year though). The markets are in a strong uptrend and can continue to move higher although at some point expect a pause or pullback. The Federal Reserve and other central banks will probably continue their modus operandi of stepping in to support the economy on any sign of weakness.

Despite the potential for our southern neighbour to hijack some of our normal exports to China, business sentiment in Canada recently registered the highest reading since the end of 2018 and the third-straight quarterly improvement. This survey was “broadly positive except in the Prairies, where indicators remain weak,” the Bank of Canada said in a summary of its findings. “In aggregate, firms’ outlook is supported by expectations of healthy domestic and foreign sales.” That sentiment has improved at all may be a positive surprise for analysts, given early estimates for growth in the fourth quarter showed a sharp slowdown at the end of last year. In addition, the share of firms planning to expand their workforce rose to 53%, the highest since the second quarter 2018 and indicators of future sales also rose to the strongest in more than a year. All in all, these are very strong indications that our economy is doing better than most acknowledge and this despite such a huge downturn in the energy sector. This is evidence once again of how the stock market effectively predicts economic activity.

Although it’s a very truncated version of what was originally espoused, the US-China trade deal is going forward. The deal eliminates or lowers tariffs on some Chinese-made goods, as well as increases China’s purchases of US agricultural products. US Treasury Secretary Steven Mnuchin said that he expects that this interim trade deal between Washington and Beijing will add significantly to economic growth in 2020. Of course, with China buying more agricultural products from the U.S., part of that will be at the expense of Canada as noted above. The Globe and Mail opines: “Some of the exports that could suffer include frozen pork, beef, soybeans, canola oil, lentils, beans, wheat, coal and seafood.”

It’s quite impossible to make investment decisions based on assumptions of the potential for future geopolitical events. It’s not been wise to bet on any particular catalytic event affecting the direction of the stock market. Take the latest Iran – US military encounters. The markets barely budged with all this going on – more positivity. The most recent events in the Middle

East could easily have ended up differently. I think we "got away with one" in that Iran's response to the assassination of their top general and military strategist, was more of a warning and a face saving gesture than a seriously damaging military response.

History proves that staying invested in times of market volatility improves returns. Below are snapshots of significant negative international events from 1950 to March 2009 and the subsequent change in market value from the S&P/500 low in that calendar year to one and two years hence.

Crisis	Market Low	1 Year Later	2 Years Later
The Korean War	7/13/1950	28.8%	39.3%
Cuban Missile Crisis	10/23/1962	33.8%	57.3%
JFK Assassination	11/23/1963	25.0%	33.0%
1969 to 70 Market Break	5/26/1970	43.6%	53.9%
1973 to 74 Market Break	12/6/1974	42.2%	66.5%
1979 to 80 Oil Crisis	3/27/1980	27.9%	5.9%
1987 Stock Market Crash	10/19/1987	22.9%	54.3%
Desert Storm	10/11/1990	21.1%	30.2%
Soviet coup d'état attempt	8/19/1991	11.1%	21.2%
Asian Financial Crisis	4/2/1997	49.3%	76.2%
Dot-com Bubble Crash / Sept 11 / Enron	10/9/2002	33.7%	44.8%
Invasion of Iraq	3/11/2003	38.2%	50.6%
North Korean Missile Test	7/17/2006	25.5%	2.1%
Subprime Mortgage Crisis	3/9/2009	68.6%	95.1%
Average Appreciation		**33.7%**	**45.0%**

Source: Bloomberg (Dec 2018)

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Last quarter I said, “It seems to me that any positive surprise such as an agreement on Brexit or a positive outcome in US/China trade talks (not just an agreement for the “first phase”) will be the catalyst for a move to new highs.” That is what has happened – the S&P500 index is up over 10% since and the TSX Composite is up 6.5% and the markets moved higher even though there was just better expectations of less negative outcomes. Sometimes all you need is less bad news (accentuate the positive!). For now, market strategist Jeff Saut suggests keeping some cash on the sideline in order to invest at lower prices and I’m in agreement with that approach since we’ve had such a big move in such a short period of time. Until my next phone call or letter, keep warm!

If you have any questions about your portfolio or any changes you would like to discuss, please don’t hesitate to contact my office at any time.

Sincerely,

Richard