The O'Neill Wealth Management Group

Wealth Management
Dominion Securities

Q4 Executive Summary

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Happy New Year! Recently we had a team meeting to reflect on the past year. We discussed what worked well, areas where we can improve, and set our priorities for the coming year. Consistently, as we shared stories of interactions with our clients and partners, each of us in our own way, expressed similar feelings of appreciation and gratitude for the opportunity to have an impact on people's lives. This realization in turn creates meaning and increases our own enjoyment of our professional roles. As we start another year together, on behalf of everyone at the O'Neill Wealth Management Group, we would like to thank you for your trust, confidence and partnership - and specifically for the positive impact you have on us.

As we write this summary, 2019 is shaping up to be a strong year for equity markets - contributing nicely to total returns in our portfolios. Certainly the recovery was welcome, after we experienced a very difficult end to 2018. For some time now we have described our approach as defensive. While we remained committed to equities this year, maintaining allocations at the target weights for each client, we also sustained a high degree of caution. We are of course delighted that so far our concerns have not materialized into meaningfully lower returns. With some more recent optimistic developments, does this mean we should now put aside our concerns about the next recession?

There is still a mix of positive and negative economic readings. In the positive column, money is not constrictive in the economy (a prerequisite for a recession), as borrowing rates have dropped dramatically and could go lower. Also the U.S. consumer has been strong, and could sustain spending with unemployment at a half-century low. Consumer spending would need to be compromised in order for the U.S. to slip into recession, and so far that does not appear to be the case. The negative detractors include the inverted yield curve, a legitimate warning sign, and a reason for vigilance, combined with the simple truth that recession probabilities are increasing. Virtually all bear markets have been associated with U.S. recessions, and usually the stock market has set its final peak for the cycle some months before the recession begins. Global manufacturing activity is subdued, and the overall trend in leading economic indicators is negative. Slower global growth makes the investment environment more challenging.

While we can certainly find reasons for optimism, we must also admit there continues to be a lack of clarity on several key issues. Sentiment towards the prospects of de-escalation in U.S.-China trade tensions has swung towards optimism but could fade at a moment's notice. Finally there is some relief in the Brexit saga with Boris Johnson and the conservatives' big win allowing them to form a majority government. This lifts political risk, and there is now the ability to pass the withdrawal agreement in January, something they have failed to do since the end of March 2019. It should however be noted there remains significant risk that Brexit can be fully completed by the end of 2020. While the agreement they hope to sign in January is for the period before the U.K officially leaves the EU, the actual trade negotiations haven't started yet. Using the examples of U.S. –China, and EU-Canada, these can take years to complete.

On balance, we conclude that the economic glass is more likely half-full, than half-empty. However, pending greater clarity, we do not feel compelled to change our strategy, which has served us well so far, and ultimately comes down to managing risk.

The dilemma we faced in 2019, and expect will continue this year, is to balance the increased risk premiums for equities with a worsening outlook for returns from fixed income investments. Eric Lascelles, Chief Economist for RBC Global Asset Management (RBC GAM) believes very low interest rates are likely to persist, and will impact personal finances for many. Ironically, he feels that households may feel compelled to save more rather than less if they are to achieve their retirement objectives in a low-return world, which runs counter to central banks' attempts to stimulate growth by cutting interest rates to encourage less saving and more spending. While not enough to undermine the stimulative effects of low rates, it is at least partially offsetting central banks efforts. The current economic cycle may be extended thanks to central banks' actions, but it may also eventually become marginally more fragile as a result of these policies.

So what is our approach? We are maintaining a neutral allocation to equity. That is to say, we want to have an investment in stocks up to the target weight defined in each client's Investment Policy Statement, which is designed to be the long-term strategic plan aligned with personal Financial Plans. By definition, this also includes an allocation in high-quality fixed income, which provides enough security for an individual's personal circumstances as it relates to income requirements and capital preservation. Low interest rates are a reality we must contend with, however no one should feel forced to take on more risk than they are comfortable with.

Within these broad allocations, we are defensively positioned. Over the course of 2019 we were committed to transitioning stocks away from more economically sensitive sectors, rebalancing portfolios as often as was needed, and taking profits when appropriate. We remain dedicated to this process now. As a result, our portfolios are made up of companies with a balance of income (dividends) and growth characteristics; are expected to be resilient; and are those in which we have confidence will ultimately recover after bouts of short-term volatility, as well as a more serious downturn if and when it arrives. Our fixed income positions are biased towards higher-quality issuers, and we are holding a greater amount of liquidity so we have flexibility to take advantage of future buying opportunities when appropriate.

It would be ideal to be looking back in another year with a similarly positive experience – good, solid returns and no recession. This is a very plausible scenario, and therefore we want to be in a position to continue to benefit, as we did in 2019. While we are hopeful, we also know that "hope is not a valid strategy", so in an effort to position portfolios for the best chance of success, we must remain vigilant, cautious, and heed the warnings offered by the global economy.

We also believe that preparation builds confidence, which is why we place such a high priority on personal and comprehensive Financial Planning in our Wealth Management practice. We look forward to continuing these conversations with you in 2020!

Once again we sincerely thank you for your loyalty and partnership.

Best regards,

Maureen O'Neill	Jennifer Shone	Dave Cajka
Vice President and Portfolio Manager	Investment Advisor	Wealth Advisor

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