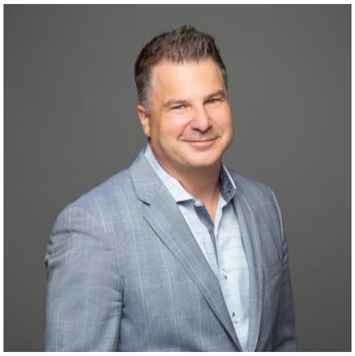
McDowell Financial Management Team
News Bulletin

Wealth Management
Dominion Securities

May 2019



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Walking and Chewing Gum at the Same Time

I couldn't have asked for a better start of the year…

Our focus, as discussed in our previous newsletter, has been protecting your returns as we are very grateful for the bull market rebound that we experienced in the first four months of 2019. My experience has caused me to pause as I believe now, as I believed then, that returns so far this year came just a bit too fast. Which is why we have reduced our exposure to equities in early April for all of our clients. Since then we have seen an increase in volatility and it's been tempting to buy back in on the dips. However when you take a closer look, the real last buying opportunity was on December 24th 2018 (see chart on next page). Lucky for our clients, we noticed and took action at that time and have been rewarded handsomely. For the next few months we will make small adjustments if they make sense, but our real focus will be protecting the returns we have already banked and waiting for another opportunity like December's. Your asset mix can do both at the same time as we are taking the appropriate amount of risk overall while maintaining a reasonable cash reserve.

U.S. & China Trade Issues

Until trade talks are resolved, volatility will be the norm. Analysts had previously believed U.S. and China to be near finalizing a trade deal and markets pushed higher because of it; unfortunately, that was not the case. Trade issues remain tense between the two as they both placed more tariffs on each other's exports. This has caused the markets to dip; fortunately, the financial markets have had a strong start to the year and are still posting good year to date returns despite the added volatility. Conflicts between the U.S. and its major trade partners have weakened business investment around the world, threatening to hamper current as well as future rates of economic growth, the Organization for Economic Cooperation and Development (OECD) said. The OECD has indicated that these trade disputes that have seen tariffs placed on a widening spread of goods have been largely responsible for a slowdown in global economic growth since 2017. In their latest outlook the OECD slightly raised growth projections for the U.S., Eurozone, and the U.K., but they lowered their global growth forecast to 3.2% from 3.3% which is lower than the 3.5% expansion in 2018 and the 3.7% expansion in 2017.

Stepping into Oil

One of the adjustments we made to our portfolio is we have been out of oil stocks in Canada for some time; this turned out to be one of our saving graces for 2018. The Organization of the Petroleum Exporting Countries (OPEC) and their oil producing allies led by Russia are trying to keep the supply and demand of oil in balance and stabilize the price by OPEC pumping less oil. OPEC's efforts to stabilize prices has positively impacted oil stocks and we've seen a bounce back. Furthermore, it's recently been indicated that OPEC intends to extend this policy when they meet this summer. With all of this considered, we have taken a minor position in a few oil companies as they should benefit from any uptick or stabilization in oil prices.

Our Overall Outlook: Earnings and Fundamentals

As of May 17, 2019, 92% of the S&P500 companies have reported their first quarter 2019 earnings, of which 76% of them have reported positive earnings per share. However, only 18 companies have issued positive future second quarter guidance and 72 companies have issued negative guidance. This could be because some companies are trying to lower expectations as they remain cautious at this later stage in the business cycle, or it could be because the economy is measurably slowing. We'll begin to have a better understanding of economic outlooks when companies begin to report their second quarter earnings.

Overall, we expect positive market growth for the rest of the year but at a slower pace than what we saw in the first four months of 2019. Although markets have been moving downward in the past few weeks there is no need to be alarmed. When you looking closely at the numbers, markets really have not come off as much as analysts would have expected given the way trade talks are going. So for now, and as we always do, we are going to balance our portfolio between risks we *can* and *need* to take.