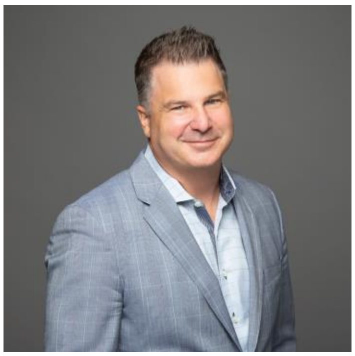
RBC Dominion Securities Inc.

McDowell Financial Management Team
News Bulletin

Wealth Management
Dominion Securities

January 2019



McDowell Financial Management Team
RBC Dominion Securities Inc.

Wayne McDowell, CIM
Vice President & Portfolio Manager
wayne.mcdowell@rbc.com
905-469-7020

Kelsey Currie, MBA, CIM
Associate Advisor
kelsey.currie@rbc.com
905-469-7084

Lisa Ballarano
Associate
lisa.ballarano@rbc.com
905-469-7004

435 North Service Road West
Suite 300
Oakville, ON
L6M 4X8
Toll Free: 1-800-567-5615

With a volatile 2018 behind us, we are eager for 2019

Like we anticipated…

2018 was the year the market just didn't want to stay positive. Market volatility continued throughout the year with large swings of up immediately followed by large swings down. And all the while we were vigorously putting your money to work to take advantage of the volatility by buying the dips in small amounts over the entire year.

Since the end of September financial markets have really been pulling back and closed the end of the year down in correction territory. Some issues that have investors concerned are weakening margin expectations, political concerns, ongoing worries that the US Fed will raise interest rates too fast, and concerns about the US and China trade war.

The good news is our strategy for 2018 worked as our managed portfolio outperformed every major index by a significate margin, and unlike last year we have a positive outlook for 2019. Its early days but we are already seeing signs of recovery and you are invested to benefit from this recovery. RBC capital markets shares our optimistic views for 2019; they believe the volatility is a correction rather than signs of a recession and the long term market rally that began in 2009 still has room for growth, particularly when you consider that major economic indicators still point to expansion.

Recently, while discussing the markets with one our institutional clients he made a very good point that I would like to share. For years we have been focused like a laser on China as every economist believes that a slowdown in China would automatically mean a slowdown in North America, but this does not appear to be the case. China has been slowing for years and recent trade wars have only added to their contraction. But in North America underlying short and long term indicators show expansion is still underway, with unemployment numbers at record lows in both Canada and the US.

Buying On Dips & Our Dollar Cost Averaging Strategy
This increased market volatility has kept us on our toes this year and while markets were struggling our overall managed portfolio was able to stay positive until the end of November. That's because we believe buying on the dips was a strong strategy that will continue to work to our advantage. We increased our weightings of current holdings at lower prices which allowed us to lower our average cost, and bought into companies we have been eyeing for a while

on down days, and we anticipate our buys to appreciate in value quickly when the market turns around and rallies again. Our portfolio activity is detailed in the graph below. It's early in 2019 but we are already seeing our work putting you on the upside. We will keep a close eye on your overall risk profile as the markets accelerate and make adjustments like we did for all of 2018.

Fear While Searching For the Sweet Spot

A recent US survey of individual investors showed that 21% of respondents are optimistic and 50% are pessimistic about the markets for the next 6 months. This level of cynical outlook hasn't been seen since the correction in early 2016 and when fear begins to overtake the market it often correlates with market lows and then a subsequent reflex rally.

Moreover, today's current S&P500 Price/Earnings valuations are in line with the historic "sweet spot" range of 14x-16x current earnings, which on average has delivered annual returns close to 15%. When you compared that to last February's 20x P/E ratio, it gives us more confidence that market volatility points to a correction rather than recession.

In Closing

We are optimistic for the year ahead and even though 2018 was a tough year we enjoyed the challenge and are proud that we were able to tread water in the face of every major index ending the year in the red.

We are looking forward to discussing this more with you in person.

Happy New Year!