Crowder Wealth Management Group's Quarterly Comment

Wealth Management
Dominion Securities

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Global capital markets reversed course after a markedly difficult end to 2018, rebounding strongly to post positive results for the first quarter of 2019. Notably, March 2019 was the third consecutive month of gains for North American equity markets, capping one of the strongest ever starts to a year. Of course, this simply reversed one of the worst ever finishes to a year.

The MSCI World Index, which reflects equity market results for 23 developed market economies, climbed 9.5% in Canadian dollar terms, with broad-based gains across markets in North America, Europe and Asia. In the U.S., the S&P 500 Index finished the quarter with a gain of 11.2% (also in Canadian currency), led by strong results for the information technology, energy and industrials sectors. Emerging markets equities also made gains during the quarter.

The Canadian benchmark S&P/TSX Composite Index posted a robust quarterly gain of 13.3%. Although most sectors added value, Canada's resource-heavy market was particularly buoyed by higher oil prices, while the industrials, information technology and health care sectors also performed well.

From a "big picture" perspective, the equity rebound came despite economic data indicating growing slack in the global economy, and central banks responded by striking a more cautious tone in the first quarter. As a result, after raising interest rates several times in 2018, the U.S. Federal Reserve left rates unchanged and put further increases for 2019 on hold. Yields for 10-year U.S. Treasury Bonds moved lower through the period as bond prices rose. The Bank of Canada also left rates unchanged, and 10-year Canadian government bond yields declined as investors discounted the probability of further rate cuts in the near term. The FTSE Canada Universe Bond Index, a broad measure of Canadian government and corporate bonds, returned 3.9% for the quarter.

Since the broad upswing in North American equities began more than 10 years ago, investors have drawn confidence from the gradual expansion of the global economy, particularly in the U.S. where corporate earnings have been healthy and employment, housing, and consumer spending data have been strong. However, late in the economic cycle, corporate earnings are slowing, as is global economic growth. Factors like the China-U.S. trade negotiations, Brexit uncertainties, and other issues have certainly had an effect on the global business environment. While interest rates remain low and help to support business investment and equity prices in the near term, the market volatility we have seen over the past few quarters will likely become more commonplace moving forward. The fourth quarter's steep decline and the dramatic reversal in the first quarter of this year is a timely reminder of how quickly markets can turn, and underscores the importance of staying invested for the longer term.

The fact is, stocks are volatile; always have been, and always will be.

Of course, there are times like 2017, where there was very little volatility – at least on the downside (referencing the US market, in particular). But times like that shouldn't lead folks to believe that things had changed. Even volatility is variable….

Volatility can also be terrifying, and extremes can be uncomfortable and indeed make it very hard to remain disciplined to any kind of long-term investment strategy.

Most investors need some degree of growth for their portfolio to achieve their long-term goals. Of course that depends somewhat on their personal situation, time horizon, return objectives, cash flow needs along with other factors. But just sitting on a cash-stuffed mattress in order to avoid volatility isn't a long-term solution. The need for long-term growth, and some income, means there's typically a need for some allocation to equities.

Earlier we mentioned that we should expect more volatility moving forward. It would stand to reason that would suggest caution. We need to remind ourselves that while market downturns happen with some regularity, there's no method that we're aware of that would predict the timing or extent of downturns with any kind of precision. Because of that, history would suggest that moving in and out isn't really a great option either.

Investing is generally more about probabilities rather that certainties. No one can ever say what will happen with precision or certainty. Although investing is about *probabilities*, it shouldn't be confused with *possibilities*. To wit: It's possible that an asteroid hits the earth and obliterates it. It's possible that you buy a penny stock that turns out to be the next Amazon. There are endless - probably infinite possibilities. But you'd be foolish to bet on things just because they are possible. You can't rationally build an investment portfolio around endless possibilities – good or bad. (Actually you can build a portfolio using possibilities, but that would also put the risks right off the chart).

When you really think about it, investors don't really need to do predict the future. At least not in the sense that tomorrow's headlines are predictable. What investors need is to have a reliable long-term wealth strategy that focusses on financial facts and conservative estimates, and history is helpful as well.

History is a powerful tool for verifying information, or assessing potential outcomes, and formulating probabilities. Using history as a general guide, alongside fundamental analysis, you can instead consider the range of likely outcomes and form forward-looking expectations based on probabilities. Of course, you should expect that you can and will be wrong, or at least look like you were wrong over the short term. You can't predict the future, but if you can craft sensible probabilities and use sound reasoning, you can at least ensure not making big mistakes or otherwise do imprudent or financially harmful things.

No doubt, in the days and months ahead, there will likely be news that will cause alarm. That's the random nature of future events – they're unpredictable. That is also why it is best to ignore political and economic forecasts to some extent, as they often prove to be an expensive distraction for investors and invoke unnecessary emotional reactions. Every year in history has been riddled with unforeseen shocks and surprises, and 2019 will be no different.

Since investing is a relentlessly continuous process, one's investment portfolio should not remain stagnant. However, the investment discipline and its guiding principles should remain consistent through time. That's why we stick with the proven strategy that focuses on evaluating individual businesses in search of a small number of exceptional opportunities based on fundamental research of financial facts, and work with investment managers who do the same.

As always, my team and I thank you for the opportunity to work together. Should you have any questions or concerns, please don't hesitate to contact us.

Sincerely,

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Vice President and Portfolio Manager
Crowder Wealth Management Group

Index	3 Month	1 Year	5 Year
S&P/TSX Composite Total Return Index	13.3%	8.1%	5.4%
S&P 500 Total Return Index ($CAD)	11.2%	13.4%	15.2%
S&P 500 Total Return Index ($USD)	13.6%	9.5%	8.5%
MSCI World Price Index ($CAD)	9.5%	5.7%	8.7%
Broad Composite Cdn. Bond Index	3.9%	5.3%	3.8%

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