RBC Dominion Securities Inc.

Crowder Wealth Management Group's Quarterly Comment

Wealth Management
Dominion Securities

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US protectionism has been a consistent topic since the 2016 election with the US having considered a border tax, pulled out of the Trans-Pacific Partnership, and threatened the same for NAFTA. In addition, on pretty much a daily basis, there are a lot of sizeable numbers being thrown around regarding tariffs potentially being imposed on a multitude of regions. That results in plenty of talk of retaliatory measures and general protectionism. All this seems to be the natural precursor to, and increases the threat of an all-out "trade war", which would have negative implications for global economic stability.

To explain, a tariff is a tax or duty on an imported good or service. Imposing a tariff on an item has the immediate effect of raising its price, causing a cascade of unknown potential disruptions to the normal course of business.

The US has an enormous appetite for imports, so they're interests clearly lie in attempting to reduce trade deficits and create and preserve jobs at home. It's been argued that some countries have been selling products or materials below the cost of production, artificially creating and preserving jobs rather than driving corporate profitability. That being the case, the businesses in the importing country (US, for example) have trouble competing with artificially lower prices.

Markets care about tariffs because an escalation of protectionism can lead to a potential global trade war as other countries retaliate and impose tariffs on each other's goods and services entering their countries. It's impossible to know how all that would end up, except that the outcome would not be positive.

For investors trying to make sense out of the situation, there's clearly a very broad range of potential consequences. The headlines of a potential trade war are certainly causing market concerns. The fact is that the range of outcomes cannot be determined and includes anything from the status quo to politically-motivated scenarios that may be economically irrational.

At times, it has appeared that tensions had eased up and negotiations were progressing smoothly. Just as quickly, those talks "hit the ditch" and we were back to full on protectionism posture. At this point there is very little to go on, as it seems that much of the talk is still open for negotiation, except with an underlying narcissistic and self-serving tone. In the past, these sorts of things have largely been worked out, as cooler heads have prevailed.

The obvious effect of all this uncertainty is that the equity markets have become much more unsettled, and we've experienced lots of volatility lately. It's important to keep in mind that generally, fundamentals are good and the business environment is relatively strong – protectionism aside. The global economy has strength on its side, and unless the protectionism gets extreme, that alone is unlikely to derail the global economy.

Without any way of assigning probabilities to the conclusion of this sort of situation, it's impossible to know what the broader implications might be. We feel that it is better to continue to focus on investing in strong and resilient businesses that can adapt to changing market environments and, in many instances, they can capitalize on market disruptions such as this through the use of their strong financial and competitive positions.

This is not to say that investors should ignore the potential threats of a protectionist environment. The possibility of escalating trade tensions remains a key risk for global markets. However, the constant "noise" from the media surrounding these events, represents an expensive distraction for investors, as it creates the potential for short-term emotional reactions. We caution against reading too much into any one announcement as we have seen many twists and turns in the policies and the outcome of the ongoing negotiations remains uncertain.

We believe that the best way to invest in an unpredictable world is to buy strong businesses that protect themselves against potential shocks by maintaining financial flexibility and continuously investing in their value proposition.

Rapid market moves should remind us that headlines (and tweets) can often cause short-term panic. For those employing a thoughtful and disciplined investment approach, periods of short-term panic can provide an opportunity to purchase securities at attractive valuations.

As one of the greatest investors in history, Warren Buffet, said, *"Be greedy when others are fearful, and fearful when others are greedy."*

As you can see from the numbers in table at the bottom of the page, capital markets advanced modestly during the first half of 2018. For Canadian investors, the US market returns got a substantial boost from the strong US dollar, which appreciated over 4%, relative to the weak Canadian Dollar. However, for equity markets it's certainly not been a smooth ride.

The S&P/TSX dropped almost 8% from the beginning of the year to when it bottomed in early February. Since that point, that index meandered up and down to eventually reach positive territory at the end of June, 2018, resulting in a 1.9% return Year-to-date.

The S&P 500 followed a similar pattern, but the index returns were heavily skewed by a few of the most popular tech stocks (namely FANG: Facebook, Amazon, Apple, Netflix and Google (Alphabet)). The broader market's behavior wasn't so positive, and many stocks actually got into "correction" territory.

Index	YTD	1 Year	5 Year
S&P/TSX Composite Total Return Index	1.9%	10.4%	9.2%
S&P 500 Total Return Index ($CAD)	7.2%	15.8%	18.6%
S&P 500 Total Return Index ($USD)	2.6%	14.4%	13.4%
MSCI World Price Index ($CAD)	3.7%	10.4%	12.7%
Broad Composite Cdn. Bond Index	0.6%	0.8%	3.5%

To repeat messages from previous quarters, we believe that there is a strong argument for owning stocks, as fundamentals remain favorable, while valuations could generally be described as "fair". Interest rates are creeping higher at this point, but fixed income securities are still not that attractive with interest rates still close to historic lows, combined with the negative prospect of rising rates.

As always, thank you for the opportunity to work together. Should you have any questions or concerns, please don't hesitate to contact me at 1-800-265-5911, 519-675-2512 or any other members of the Crowder Wealth Management Team.

Final Thought:

> *"The individual investor should act consistently as an investor and not as a speculator"*
> \- Ben Graham

Sincerely,

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Crowder Wealth Management Group.

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