Crowder Wealth Management Group's Quarterly Comment

Wealth Management
Dominion Securities

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We would like to wish you and your family the very best for 2019. First and foremost, we want to thank you for putting your confidence and trust in us. The reason we work hard every day is to help improve the financial wellbeing and security for our clients.

How did the markets do this year?
After an unusually calm year of solid performance for capital markets in 2017, investors experienced a much bumpier ride in 2018. Downward volatility resurfaced in the first quarter, and though markets moved generally higher through the summer months, a sharp sell-off in the fourth quarter meant that most asset classes registered negative returns for the year. For Canadian investors in foreign markets, losses were mitigated somewhat by the weakness of the Canadian dollar, which declined about 8% relative to the U.S. dollar for the year.

U.S. equities posted some of the best results among global assets in 2018, with the S&P 500 Index reaching an all-time high and setting a record for the longest bull market on record in the third quarter. After the fourth quarter sell-off, however, the index finished the year with a loss of 4.4% (a gain of nearly 4% in Canadian dollar terms). Canada's S&P/TSX Composite Index, meanwhile, was weighed down by themes that included plunging energy prices as well as weakness in materials and financial services. The Canadian benchmark finished the year with a loss of 8.9%. The MSCI World Index, a broad measure of developed market equities, fell 8.2% in U.S. dollars (-0.2% in Canadian dollars).

Central banks in North America continued to gradually raise interest rates throughout 2018. Ten-year U.S. and Canada government bond yields rose and peaked early in the fourth quarter, but fell through November and December to end lower for the year. The FTSE TMX Canada Universe Bond Index, which broadly reflects results for the Canadian government and investment-grade corporate bond market, gained about 1.4% over the 12-month period.

Some perspective on volatility
Although it is always difficult to pinpoint a single reason, several economic and geopolitical developments have been linked to 2018's market gyrations. These include increasing trade friction between the U.S. and its trading partners, particularly China, and the fraught Brexit negotiations between the U.K and the European Union. Rising short-term interest rates in North America are leading to tighter financial conditions, while slower economic activity has weighed on commodity prices – particularly oil – and the materials and energy sectors.

Regardless of the cause, there is no doubt that market turbulence can be unsettling for investors, and last year's volatile performance was particularly surprising following the steadiness of 2017. The reality, however, is that downside market volatility is normal.

In most years, the S&P 500 will experience several days in which the value of the index drops by 2% or more. In this context, 2017 was an outlier with nearly non-existent volatility. 2018, with roughly 15 days registering losses of 2% or more, the level of volatility for the index returned to a more "normal" range.

Downside volatility is normal

The fact is, market volatility is not always a bad thing. Professional money managers often welcome market declines as a necessary ingredient for positive returns as it creates opportunities to add to existing positions or buy higher-quality businesses at reduced prices. In 2017, asset prices remained elevated, providing few opportunities to shop for "bargains."

Furthermore, it is virtually impossible to predict when market swings will occur. Studies have shown that investors who attempt to time the market – that is, sell before a downturn and reinvest when markets are poised to rise – often end up missing the best upside days and underperform relative to those who stay invested. Markets do not advance in a straight line, resulting in "lumpy" returns. But, historically the long-term direction for equities has been up.

What's in store for 2019?

In contrast to last year's consensus outlook that pointed to a synchronized global economic expansion, many experts now believe we are in the late stages of the economic cycle, with global growth slowing and downside risks increasing. Nevertheless, developed economies are expected to grow throughout the coming year and inflation remains moderate. Global interest rates remain low by historical standards, allowing corporations the flexibility to strengthen their balance sheets and invest in the future of their businesses. These conditions suggest a cautiously optimistic outlook for markets in 2019.

My advice: stay diversified, and invest for the long term

Investors usually find it difficult to set aside short-term distractions and maintain a long-term perspective when negative headlines dominate as they have in recent weeks. But looking back over the longer term, the most recent market decline can be seen as a setback in a strong run upward. From its lows reached following the financial crisis in March 2009 to the end of last year, for example, the S&P 500 was still up more than 270%.

While 2018 proved to be a relatively challenging year, we believe that the most important action to take as an investor is to create a sound, diversified investment plan that is consistent with your time horizon and tolerance for risk, and then having the discipline to maintain strict adherence to that plan through periods of short-term volatility.

As always, thank you for the opportunity to work with you as your financial advisors. 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.

"The power of psychological influences must never be underestimated. Greed, fear, suspension of disbelief, conformism, envy, ego and capitulation are all a part of human nature. They will influence others and the thoughtful investor will feel them as well. We must recognize them for what they are and stand against them. Reason must overcome emotion.'"

- Howard Marks

Index	3 Month	1 Year	5 Year
S&P/TSX Composite Total Return Index	-10.1%	-8.9%	4.1%
S&P 500 Total Return Index ($CAD)	-8.6%	3.7%	14.0%
S&P 500 Total Return Index ($USD)	-13.5%	-4.4%	8.5%
MSCI World Price Index ($CAD)	-8.8%	-2.9%	7.8%
Broad Composite Cdn. Bond Index	1.8%	1.4%	3.5%

Sincerely,

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