Gallivan Wealth Management
Fourth Quarter 2018 / Outlook 2019

Wealth Management
Dominion Securities

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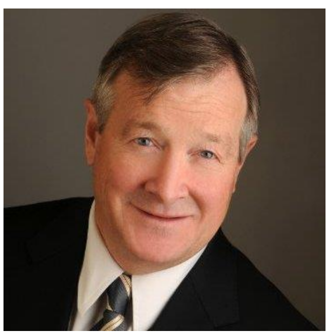

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In the short term the markets are a voting machine [based on sentiment]; in the long run it's a weighing machine [based on earnings]"
Benjamin Graham, author of the Intelligent Investor

We would like to wish you and your family a Happy New Year. Markets are off to a quick start in 2019 and we look to earnings season to bolster markets.

How did the markets do last year?

After an unusually calm year of solid performance in 2017, equities experienced a much bumpier ride in 2018. 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 posted negative returns for the year. It was a year where diversification helped - for Canadian investors losses were mitigated somewhat by the strength in foreign currencies, especially the US dollar, which appreciated about 8% for the year.

The fourth quarter was difficult, as investor sentiment weakened due to worry that Central banks would be too aggressive in raising interest rates, leading to a slowdown in growth. This resulted in the Canadian and US markets selling off 10.1% and 13.6% respectively. In contrast, for the full 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%. International markets were down 7.5% for the quarter and 6% for the year. China, caught between slowing growth and the US trade dispute, was down over 22% for the year.

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 investment-grade bond market, gained about 1.4% over the 12-month period.

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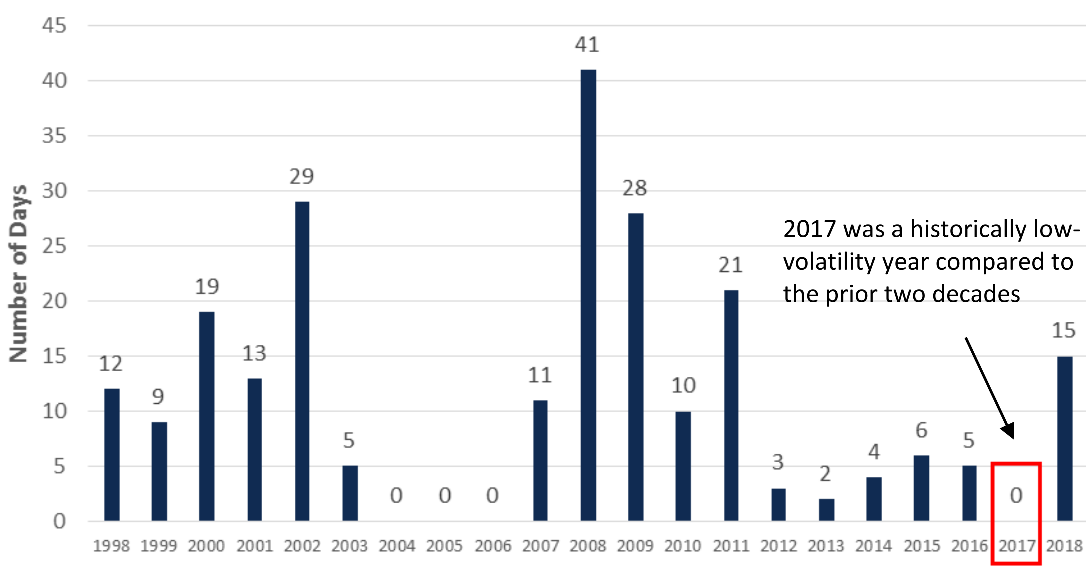
Some perspective on volatility

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. As well rising short-term interest rates by Central banks 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. The reality, however, is that market volatility is normal.

The chart below shows that 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. Last year, with 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 number of days the S&P 500 fell by -2% or more:



Source: Bloomberg Finance L.P., CI Investments. S&P 500 TR USD as of December 31, 2018.

Furthermore, it is nearly 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, 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 later stages of the economic cycle, with global growth slowing and risks increasing. Nevertheless, developed economies are expected to grow throughout the coming year and inflation remains moderate. Global interest rates are low by historical standards, allowing corporations the flexibility to strengthen their balance sheets and invest in the future of their businesses. Finally, if history is any guide, it's worth noting that when markets have fallen, following year returns have delivered median returns of double digits. These conditions suggest a cautiously optimistic outlook for markets in 2019.

Our advice: stay diversified, own quality and invest for the long term

It can be difficult to set aside short-term distractions and maintain a long-term perspective when negative headlines dominate the news and weaken investor sentiment. Looking back over the longer term, the most recent market decline can be seen as a setback in a strong upward trend of earnings and markets.

The most important action to take is to create a sound, diversified investment plan that takes your time horizon and tolerance for risk into account, and then to stick to that plan through periods of short-term volatility. As asset classes do not typically perform in a correlated fashion, diversification can help to insulate your portfolio from the highs and lows, and provide a smoother experience over time. As you know, we believe dividends and dividend growth companies help navigate through volatility and provide a better overall investment experience.

As always, if there is anything new in your personal circumstances that we should be aware of or if you have any questions or concerns about your investments, please do not hesitate to contact our office.

Sincerely,

Don Moore, FCSI, CFP

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