



SEPTEMBER 2018 NEWSLETTER

Market Review

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The 3rd quarter of 2018 was uninspiring for Canadian, European, and emerging market investors, but the US market put out a positive performance, up 7.2%.

A positive NAFTA agreement for Canada will likely lift Canadian large cap stocks going forward. The US mid-term elections in November may shake up the US political landscape, changing which countries and sectors lead the financial markets.

	<u>Sept</u> <u>29/17</u> <u>Close</u>	<u>Jun</u> <u>29/18</u> <u>Close</u>	<u>Sept</u> <u>28/18</u> <u>Close</u>	<u>90-Day</u> <u>%</u> <u>Change</u>	<u>1-Year</u> <u>%</u> <u>Change</u>
S&P 500	2,519	2,718	2,914	7.2%	15.7%
S&P/TSX Composite	15,625	16,278	16,073	-1.26%	2.87%

Source: Thomson One

<u>World Markets</u>	<u>YTD</u>
S&P/TSX Composite	-0.84%
S&P 500	8.94%
iShares MSCI China ETF	-10.0%
iShares S&P/TSX Preferred Index ETF	-1.39%
DJ Stoxx 50	-3.00%
iShares MSCI Emerging Markets EFT	-8.91%
iShares MSCI Japan EFT	0.50%

As of September 28, 2018

Source: Thomson One

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Canadian T-Bills and Bonds Yields

	<u>Mar. 29, 2018</u>	<u>Jun. 29, 2018</u>	<u>Sept. 28, 2018</u>
90-day	1.11%	1.31%	1.60%
180-day	1.32%	1.49%	1.76%
1-year	1.60%	1.73%	2.04%
2-year	1.769%	1.915%	2.214%
5-year	1.961%	2.068%	2.340%
10-year	2.086%	2.169%	2.428%
30-year	2.225%	2.204%	2.422%

Source: Thomson One

International 10-Year Bond Yields

	<u>Mar. 29, 2018</u>	<u>Jun. 29, 2018</u>	<u>Sept. 28, 2018</u>
Japan	0.03%	0.02%	0.12%
U.S.	2.74%	2.86%	3.06%
Germany	0.49%	0.30%	0.47%
Canada	2.09%	2.17%	2.43%
U.K.	1.35%	1.28%	1.57%
France	0.71%	0.66%	0.80%
Spain	1.15%	1.31%	1.49%
Italy	1.78%	2.67%	3.14%
Portugal	1.58%	1.76%	1.87%
India	7.39%	7.90%	8.02%

Source: Bloomberg.com

Interest rates in Canada, the US and most other countries have risen this quarter, as the bond market is expecting more inflation and economic growth.

Rates have not risen to the level that we have felt comfortable buying any bonds, but the Bank of Nova Scotia daily interest account currently pays 2% and offers a bond-like yield with no capital risk.

Characteristics of a Smart Investor

A portfolio is like a bar of soap, the more you handle it the smaller it gets.

We have a wide variety of clients who come from diverse backgrounds and are at different life stages. While each client has unique financial goals and needs, a common investment strategy of buying and holding high quality, non-speculative investments that provide a steady income has shown to be successful in the long-term.

Recently, Raymond James Financial Chief Investment Strategist Jeff Saut discussed the characteristics of smart/wealthy investors who experience long-term success investing in the market:

- Doesn't need the markets.
- Already has the income he/she needs from pensions, bonds, T-Bills, money market, real estate, and stocks (dividends).
- Never feels pressured to 'make money' in the market.
- Buys bonds when bonds are cheap and yields are irresistibly high.
- Buys stocks at bargain prices and when dividend yields are attractive.
- Can afford to wait for market opportunity.
- Takes the risk of an investment into account as well as the reward.
- Understands that accumulating wealth is a slow and steady process.

We are fortunate our clients possess the same attributes as the smart investor described by Jeff Saut. By holding blue-chip income-producing stocks and bonds and waiting for opportunities in the market, our clients have accumulated wealth over time and created an income stream for their retirement years.

Revenge of the Stoners

We have been experiencing a mania lately as Canada's marijuana companies have been grabbing the attention of the world with extraordinary gains.

Sadly we missed participating in this sector as the valuations have always been frightfully high for the sales, and the companies are losing money. Nanaimo's Tilray, with the main asset being a production facility in the Duke Point industrial park, has a market capitalization of \$12.2 billion US and is up over six times since it started trading on July 19.

The extreme moves of these stocks reminds me of the technology bubble in 1999/2000, when stocks like Ballard Power went from \$5 to \$210 (currently \$5.54US), Nortel Networks went from \$10 to \$124.50 to zero, and a telemarketing company operating out of the lower floor of a building on Cavan Street in downtown Nanaimo had a market cap of over \$200 million (the stock later went to zero).

At this point we would consider these stocks pure speculation. While we applaud those entrepreneurs and investors who got in early, the market action is closer to musical chairs than an orderly market.

The challenge of these manias is that when the stocks are on their meteoric rise we feel like dummies for missing out, but when the mania eventually breaks, those investors who bought high can experience huge losses, which feels even worse.

You don't want to be the last buyer before the music stops.

Tilray Inc. (TLRY-US) 2 Month Chart



Source: bigcharts.com

Tilray hit \$300.00 on September 19, and currently trades at \$143.62.

Summary

World events are out of our hands, so we should try not to make investment decisions based on any partisanship that we have, and invest based on facts and valuations. We will continue to monitor our holdings for underperformers, and look for entry points to accumulate high quality securities. We have upgraded the quality of our holdings as the business cycle has matured, and are comfortable with the securities that we own. Those being said, if you have any questions on how your portfolio is set up for your personal situation, please call.

With the addition of Mark and Meaghan as Associate Advisors, we now have the ability to take care of more relationships. If you have friends who have expressed an interest in finding a new advisor, we would be delighted to hear from you. Just call our office at 250-729-2830 and we'll take it from there. Thanks!



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