2015 | Q3

QUARTERLY UPDATE

You know it's an unusual year when it's October and the Blue Jays are still playing baseball! And so it has been with the world economies and stock markets, as well. What with the events in Greece, the commodities crash and ensuing recession in Canada, and slowing growth in China, it has been a bizarre year indeed. Having said that, a bit of a pullback in the stock markets was to be expected after several years of strong upward momentum. In fact, these pullbacks actually give us an opportunity to take advantage of lower prices and in some ways are a welcome development!

While we like to see the markets dip from time to time, we appreciate that you may not be so thrilled about seeing a drop in the capital value on your statement and we are very mindful of that fact. There is a significant amount of research around how and why we react the way most of us do in periods of negative stock market returns - even if we've lived through downturns many times in the past and we know it's temporary! The trick is to learn how to harness our emotions to help us avoid what is called 'Investment Regret'. Understanding our emotional state and putting plans in place before emotions take over can help prevent bad investment decisions at bad times. Part of our role is to help you identify and curb your emotional responses during these times.

Which brings us to the markets; *Statistics Canada* reported that the Canadian economy contracted in the first half of the year, meeting the definition of a recession in this country. *The Bank of Canada* acted in July with a cut to its key overnight rate to 0.5%. Weaker commodity prices, specifically oil, have noticeably contributed to the economic slowdown. Oil prices closed the second quarter at US$59.47 a barrel for the benchmark West Texas Intermediate (WTI). Increased supply from many producers around the world contributed to the fall in oil prices to a low of US$38.24 a barrel toward the end of August with only a modest recovery to US$45.09 a barrel as at the end of the quarter.

Consequently, the S&P/TSX Composite Index, obviously not immune to lower commodity prices, fell -7.9% during the quarter on a total return basis. That is a noticeable decline!

On a global basis things were only marginally better as the downward volatility was widespread and indiscriminant. China's economic slowdown contributed to fears. Stocks in the United States fell -6.4% in the third quarter as measured by the S&P 500 Index (in U.S. dollar terms). When adjusted for the drop in the Canadian dollar, U.S. stocks showed a gain of 0.5% during the quarter as the Canadian dollar fell -6.9%. Global stocks, as measured by the MSCI World Index fell -8.3% (in U.S. dollar terms) and fell a more modest -1.6% in Canadian dollar terms in the third quarter. I guess there is some good news in the falling after all.

The recent volatility is a perfect example of why a balanced investing approach is often the best approach. While equity markets swung negative, bonds were modestly positive with a gain of 0.2% when measured by the FTSE/TMX Universe Bond Index.

To put things in perspective, equity market volatility is the norm. A correction of the magnitude we've experienced over the summer is well within the context of a normal market cycle. What's important to remember is that a balanced portfolio that includes bonds/ fixed income assets will smooth out volatility as we strive to meet our investment goals.

Notwithstanding a fairly robust rally in the stock markets month to date in October (S&P/TSX up over 4% as at Oct 23), we will continue to be faced with economic issues like China, Greece, Canada, and oil and other as yet unknown events. Volatility may subside, or it may increase. We are prepared for either scenario.

We remain cautious toward the market(s) through the remainder of 2015 and into 2016, but we also know that overall, dividend yields remain good and are 'paying us to wait' as we go through this rough patch.

While the outlook remains somewhat cloudy and we continue to expect volatility in the stock market with every iffy economic headline, it is during these times that we will look for opportunities to allocate built up cash reserves into a good quality investment trading at a discounted price.

Keeping our eye on the longer-term and maintaining a good balance between equities and fixed income assets in the short term, has in the past, and should continue to serve us well.

As always, if you have any questions about the markets or your investments, we are here to talk.

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