

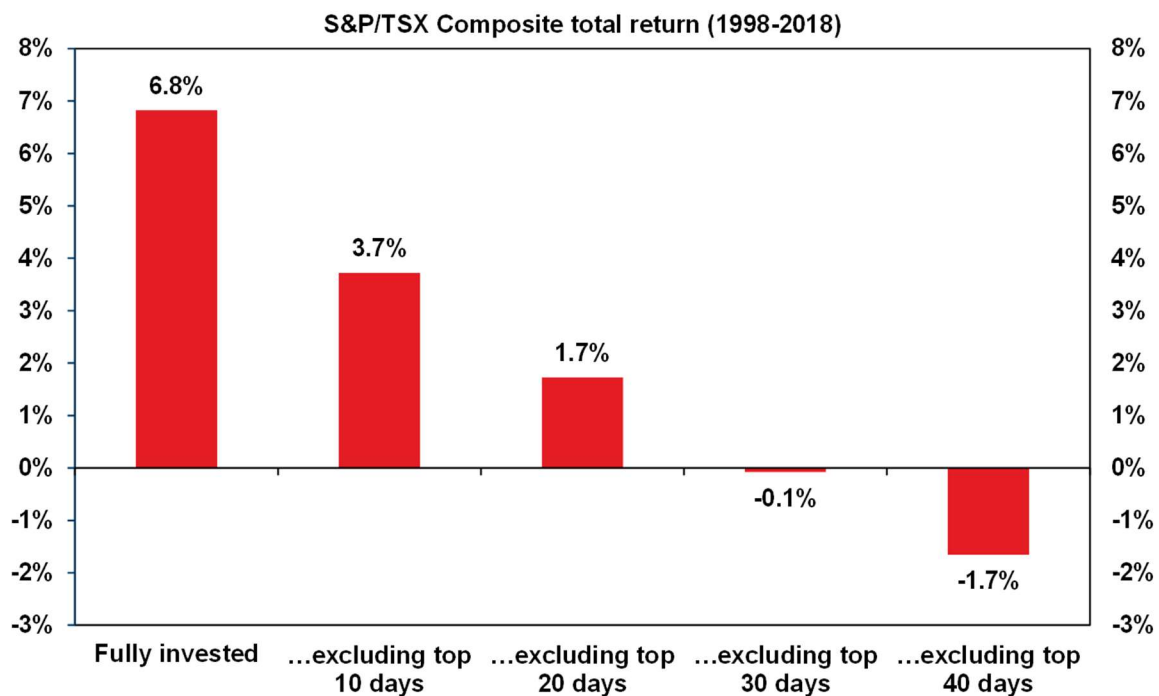
The Market Letter

October 30, 2018

Market Commentary

October has been a challenging month for investors. As this letter is being written, the TSX is down 10.9% from the July high and the S&P500 is down 9.3% from the high reached in September. Rising interest rates, ongoing trade tensions between the U.S. and China, mixed 3rd quarter corporate earnings, and a brewing budget crisis in Italy have all contributed to the return of market volatility. Throw in a constant barrage of sensationalized media noise and investors are understandably stressed.

What to do? **For most investors the best course of action is to do nothing.** Underlying economic fundamentals remain solid and bear markets do not occur outside of a recession. Just last week, the U.S. reported 3rd quarter GDP figures that exceeded expectations. Over the long-term, the stock market has been one of the best ways to build wealth. Despite countless pullbacks and a great recession, remaining fully invested in the TSX over the past 20 years would have yielded an average annual compound return of 6.8%. Alternatively, if you had missed just 10 of the best up market days over that same time frame, your returns would have been reduced to just 3.7%:



Source: Datastream, from January 1st 1998 to September 17th, 2018

This goes to show the importance of remaining invested and not jumping in and out of the market. Trying to time the market is a very poor strategy over the long term. **Investors should ignore the noise, focus on fundamentals, and stick to a plan.**

We are also entering the favourable 6-month period for stocks, which lasts from late October until early May. There are no guarantees, but historically the S&P500 has performed substantially better in this 6-month period compared to the other 6 months of the year. Investors who can stand the volatility may use this seasonality and the pullback in the markets as an opportunity to deploy excess cash. Using pullbacks to buy good quality companies when they are cheap can also produce outsized returns over the long term.

Of course, most investors should not be fully invested in equities to begin with. Depending on your tolerance for risk & volatility, it is advisable to keep a portion of your portfolio in cash or fixed income. This is particularly true for elderly investors who have a shortened investment horizon and less time to make up for losses. Recent interest rate increases mean the yields on GICs and money market funds are the highest they've been in years. Our latest fixed income rates are included below.

Fixed Income Rates

Daily Money

NBI Cash Performer (CAD): 1.60%

NBI Cash Performer (USD): 1.65%

GICs

1yr – 2.57%

2yr – 2.95%

3yr – 3.11%

4yr – 3.16%

5yr – 3.34%

Rates are as of October 30, 2018 and are subject to change at any time.

Year-End Tax Planning

Many investors will have generated significant taxable capital gains in 2018. Any losing positions in your portfolio can be sold on or before December 27th to offset gains from this year. You can also carry losses back to offset gains from the 3 previous years. Please give us a call if you would like to review some year-end tax strategies.

Registered Education Savings Plan (RESP) Contributions

Contributions for 2018 must be made by December 31st. All contributions up to \$2500 qualify for the 20% savings grant (\$500 on \$2500).

I have prepared this commentary to give you my thoughts on various investment alternatives and considerations which may be relevant to your portfolio. **This commentary reflects my opinions alone, and may not reflect the views of National Bank Financial Group.** In expressing these opinions, I bring my best judgment and professional experience from the perspective of someone who surveys a broad range of investments. Therefore, this report should be viewed as a reflection of my informed opinions rather than analyses produced by the Research Department of National Bank Financial.

The securities or sectors mentioned in this letter are not suitable for all types of investors and should not be considered as recommendations. Please consult your investment advisor to verify whether this security or sector is suitable for you and to obtain complete information, including the main risk factors.

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