

The Market Letter

December 3, 2019

Market Commentary

When I wrote my last Market Letter in September, stock market volatility had spiked as U.S. – China trade negotiations were stalled, global economic figures were deteriorating, and an inverted yield curve had the media forecasting doomsday scenarios almost daily. Investors were understandably worried. At the time, I urged clients to avoid timing investment decisions around a potential recession, to remain calm and ignore the media noise, and to stick with an asset allocation appropriate to their tolerance for risk.

With the world seemingly falling apart only just a few months ago, what has happened to equity markets since then? From the end of August to the end of November, the TSX has increased 3.6% while the S&P500 is up a whopping 7.3%. Markets are near all-time highs, buoyed by optimism over a phase 1 U.S. – China trade deal and improving economic data. This goes to show that at best, trying to time the markets leads to underperformance, while at its worst can cause serious damage to your long-term returns.

We are also currently in the 6-month period of favourable seasonality for stocks, which lasts from late October to early May. Since 1950, there have been only 2 years with losses greater than 10% on the S&P500 during this favourable 6-month period. If history serves as any guide, this is not the time to be overly pessimistic towards stocks.

Of course, stock market optimism could fade at any time and seasonality is no guarantee. Even as I write this letter, volatility is picking up again. Will a phase 1 trade deal happen this month or will Trump increase tariffs? Basing investment decisions around these outcomes is pure speculation and is best to be avoided.

Core Holdings Update

For Canadian exposure, our **Growth & Income Private Portfolio (Basket)** consists of 15 high-quality Canadian companies with a focus on defensive stocks with growing dividends. ***Since we launched the Basket on January 28th, the total return has been over 16% and the current dividend yield on the whole portfolio is 4%.*** For investors seeking to shed their high-fee Canadian equity funds, there is no reason not to switch into this Basket.

For exposure outside of Canada, we recommend the **Canoe Global Defensive Equity Fund**. Canoe uses an active hedging program that helps dampen price movements when market volatility increases to the downside. This helps preserve capital in periods when markets are challenging and allows for outsized returns over the long term. ***In 2018, Canoe returned 6% to investors while both Canadian and U.S. equity markets were down significantly. So far in 2019, Canoe has returned nearly 19%.***

For income-oriented investors who have a medium to long term investment horizon, **Contingent Income Notes (CI Notes)** provide a high level of income with a significant degree of protection on their capital: ***Our current CI Note linked to the Canadian market pays 4.15% per year over 7 years and your principle is guaranteed by National Bank at maturity if the TSX60 is not down more than -40% over the 7 years.***

Year-End & New Year Planning

Tax Planning:

Any losing positions in your portfolio can be sold before year-end to offset this year's realized capital gains. You can also carry losses back to offset gains from the 3 previous years. We will be sending our clients realized capital gains reports in March to help with the preparation of tax returns. ***As always, we advise our clients to wait until early April to file as some tax slips are not mailed until the end of March.***

RESP Contributions:

Contributions for 2019 must be made by December 31st. All contributions up to \$2500 qualify for the 20% savings grant (\$500 on \$2500).

TFSA Contributions:

Make sure your tax-free savings accounts are topped-up. The 2019 contribution limit is \$6000. We will be contacting clients in the New Year advising them to top-up their TFSAs for 2020.

RRSP Contributions:

The RRSP contribution deadline for the 2019 tax year is March 2nd, 2020. The contribution limit is 18% of your 2019 earned income, or \$26,500, whichever is less.

Estate Planning:

1. ****IMPORTANT** Be sure to designate beneficiaries on your registered accounts (RRSPs, RRIFs, and TFSAs).**
2. If you have already designated a beneficiary, this is indicated on your NBF portfolio statement. Please check to make sure these designations are correct and up-to-date.
3. Be sure to review your Wills and Power of Attorneys (PoA) to make sure they are up-to-date. Please contact us if you require the name of a Lawyer to draft a Will or PoA.
4. Review your insurance policies to ensure they provide adequate coverage or are still relevant to your current situation. We have an excellent insurance specialist in our office who can review your policies. Please contact us for further information.

Fixed Income Rates

Daily Money

NBI Cash Performer (CAD) = 1.85%

NBI Cash Performer (USD) = 1.40%

GICs

1-year = 2.25%

2-year = 2.30%

3-year = 2.35%

4-year = 2.35%

5-year = 2.40%

Rates are as of December 3, 2019 and are subject to change at any time.

Mortgage Rates

1-year fixed = 3.20%

2-year fixed = 2.97%

3-year fixed = 2.95%

4-year fixed = 2.90%

5-year fixed = 2.79%

5-year variable rate = Prime (3.95%) – 0.83% = 3.12%

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Referrals

My clients often ask me if it's okay to refer family and friends. I want to emphasize that this is highly encouraged! My business is built on word of mouth and I am always happy to sit down with a prospective client to discuss my process. If you feel it is appropriate, please feel free to pass along my contact information.

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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