

December 20, 2018

Update on Recent Market Volatility – Cooler Heads Will Prevail!

We thought it was important to communicate with all our clients as we live through the recent market volatility we have all been experiencing. I have spoke to many clients who are getting concerned at the short term changes in their portfolio values due to what has mainly been the last quarters negative market performance.

All markets have turned negative on the year due to an overwhelming amount of uncertainty being experienced in many sectors. In Canada, we have been dealing with shrinking oil prices, a lack of distribution to get our oil to foreign markets and what appears to be a tax and spend administration who are trying to position themselves for next years election.

The US, while I probably don't need to elaborate too much about the Trump factor on the volatile environment, I will say this. He continues to try to interfere with the Fed reserve interest rate policies designed to keep inflation in check and protect against diminishing spending power as goods and services get more expensive. Many of the inflationary effects are being caused by the "Tariff Man" imposing trade barriers on countries in an effort to get a "better deal" for the US from it's trading partners in North American and Asian markets. When you add on the continuous flow of political sentiment surrounding the Mueller investigation nearing completion with the initial reports not looking too go for Trump's future and the immigration issues on the US southern boarder heating up even further over the WALL, this all adds up to uncertainty in the markets.

If we ad in the French riots and demonstrations over increasing inflationary pressures, erosion to the middle class spending power, the continued tensions around Brexit for May in the UK, coupled with the looming retirement of Merkel in Germany, who many feel has been a stabilizing factor during this lagging period of EU uncertainty, this all ads up to the perfect storm in the political and economic markets which cause markets to "misbehave" as investors cannot seem to find any certainty to provide comfort in the world right now.

I know we have taken this position before, but I feel now is an important time to review the basic principles of the markets to help clients avoid making decisions that could affect their long term goals and income requirements by making rash decisions in periods of volatility like this. I understand living with volatility is difficult, the statement shock of seeing a reduction in your portfolio values quarter after quarter, the instinct is to run away from the investment market until the storm has passed. It is imperative that in order to provide longer term returns we don't panic and make decisions that can turn short term paper losses into long term permanent losses by trying to time the market and sell at what could be the new bottom being established.



As I write this message, the TSX is off -12.58%, the US market defined by the S&P500 is down -7.68%, with European and World market all well into double digits losses YTD. That being said, our approach of building balanced portfolios, using conservative asset managers who apply fundamentals by focusing on high quality companies who continue to increase earnings and dividends to shareholders, and holding cash in support of times like these to buy these companies, has been working well to protect client capital. Client portfolio's are actually running flat for the year or up to about -7% on the most aggressive portfolios. This is significantly lower than the overall markets, although it appears lower when looking online or at the portfolio statements when you compare quarter or quarter, the YTD results are holding up very well.

Our advice is to stay the course, allow our asset managers to do their jobs and deploy cash at these buying opportunities in the pools and rebalance to take advantage of companies that have been on their watch list for many months which have now become attractive to support the 3 to 5 year returns that are consistent with client expectations. Having been through many of these periods of uncertainty over my 35+ years in this business, and supporting clients through uncomfortable short term reductions in their portfolios values, I have confidence that this too shall pass and the news can, and will, change faster than one can predict, so staying the course always wins over trying to market time.

We would like to wish all our client's a wonderful Holiday Season, a Merry Christmas and hope you all have the opportunity to enjoy time with family and friends. We look forward to seeing everyone in the New Year and bringing you up to date as we all ride through these times of uncertainty together. For now, thank you for continued confidence you place in our people and our firm, and rest assured we will be working our way through the volatility together into 2019!

All the best

The Hatch & Muir Team

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