TD Wealth

Market Update

October 20, 2014

I hope you and your family had an excellent summer and have settled into your fall routine. After a prolonged period of low volatility and steady growth, financial markets have become increasingly unsettled.

In recent weeks, stock markets have declined while investments considered to be "safe havens" have increased in value, including developed market government bonds and the U.S. dollar. Investor concerns have focused on the slow pace of economic growth, particularly in China, Japan and Europe, continued conflict in the Middle East and the winding down of the U.S. Federal Reserve's economic stimulus plan, which may lead to higher interest rates.

Markets began to turn lower in September, resulting in uneven results for the third quarter. The Canadian dollar and stock market were affected by weakness in the resource sectors, as the price of oil and other commodities dropped in response to downgraded expectations for global growth. After hitting a new high on September 3, the S&P/TSX Composite Index went on to post a modest drop of 0.6% for the quarter. In the U.S., the S&P 500 Index moved above the 2,000 mark before losing momentum and finishing the three-month period with a gain of 1.1% in U.S. dollar terms and 6.2% in Canadian dollars, the difference reflecting the weakness in the Canadian currency. Globally, the MSCI World Index was 2.1% lower in U.S. dollars, but was up 2.8% for the quarter in Canadian dollars.

The Canadian bond market, meanwhile, posted an overall gain of 1.1% during the third quarter, with higher-quality issues such as federal government bonds leading other segments of the market.

However, stock markets continued to lose value in the first two weeks of October, with economic data from Europe one of the factors disappointing investors. While these market movements have resulted in alarming headlines in the business press, I would like to put the numbers in perspective.

Even with the recent declines, the Canadian and U.S. stock markets were still positive for the one-year period (as of October 15), and the S&P 500 was up more than 175% from its low reached during the financial crisis in March 2009. In addition, the broad U.S. stock market had not had a correction, which is a drop of more than 10%, since October 2011. Such a long period of stability is, in fact, highly unusual for stock markets, and we should not be surprised by higher levels of volatility.

While no one can predict how prices will move in the short term, there are a number of circumstances that remain supportive of markets, including low interest rates, strong corporate earnings, and a strengthening North American economy. For example, the U.S. economy grew at an impressive annual rate of 4.6% in the second quarter, and the unemployment rate fell below 6% in September for the first time since July 2008.

I believe the best way to weather market volatility is to take a longer-term view and remain invested in a diversified portfolio tailored to your individual objectives. Diversification by asset class, industry sector and geographic region helps to provide more stable returns, because not all investments respond to events in the same way.

As always, our team at Bird Moore Advisory Group (Brandon, Lynn, Jessie and I) thanks you for your business and we look forward to many years of continued growth.

Dane Bird
Vice President, Investment Advisor
Certified Retirement Specialist

Brandon Moore
Investment Advisor
Certified Retirement Specialist

Bird Moore Advisory Group
TD Wealth Private Investment Advice
#410 – 1633 Ellis St
Kelowna, BC V1Y 2A8
Toll Free: 1 888 299 2111
Fax: 250 470 3015
birdmoore.ca

Dane L. Bird
Vice President, Investment Advisor
Certified Retirement Specialist
T 250 717 8110
dane.bird@td.com

Brandon Moore, CFP, FMA, FCSI
Investment Advisor
Certified Retirement Specialist
T 250 470 3023
brandon.moore@td.com

Bird Moore
Advisory Group