TD Wealth

September 2017

Market Update

Important Topic: Predictions

The longer I work in this industry and read the many predictions made by "experts" the more I tend to dismiss them as unhelpful (I am being kind as in my opinion many are quite damaging if followed). I recently came across the following:

"An analysis of 28,000 specific predictions by 284 "experts" over 20 years showed that market predictions were "only slightly better than chance" and that simple extrapolation was far more accurate" (National Post, 9/30/17)

In other words, the experts were only slightly better than flipping a coin and you would likely have done better by simply expecting the current trend to continue. Think about that. Think about that the next time you read these newspaper articles about how we are about to crash or double. Think about this when you read or hear an economist predict the economic cycle (either the upturn or downturn).

If one even attempts to "model" the present so that one can accurately predict the future, one would need a model of infinite complexity. This would be additional magnitudes of complexity compared to predicting the weather (the path of a hurricane would be helpful). And yet we have learned to take the weather forecast with a grain of salt but somehow allow market predictors to penetrate and bypass perspective.

Conclusion

Predictions are easy… and one of the many will prove to be right. But we cannot know which. Further, the one who is right can be viewed simply as lucky, as can be seen by the almost impossibility of finding someone who has gotten it right twice.

Do not let predictions factor in to your plan. I believe that the best approach is to buy strong long-term investments, many of them, and watch them very closely. Develop such a plan and stick to it.

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Market Update – September 2017:

September was a profitable month overall. Despite pessimism and uncertainty, the economy and earnings continued moving upwards resulting in the markets resuming their upward movement.

Rising interest rates in Canada, and an expected further increase in the US, have been the focus of much conversation and ink. Interestingly, and contrary to popular belief, periods of rising interest rates have correlated with periods of rising equity markets. This actually makes sense as interest rates are raised when the economy is doing quite well and the Bank of Canada and/or the US Federal Reserve (the Fed) wish to slow it down (the fear being that if left unchecked the economy will over heat resulting in a lack of labour and goods causing inflation). A strong economy usually leads to strong earnings and therefore higher stock prices.

Raising interest rates is expected to lower the value of bonds. This too makes sense. If you own a bond paying 3% for which you paid $100, and interest rates move to 4%, no one will buy your bond for $100. They can get a 4% bond for their $100. If you wished to sell your 3% bond you would have to sell for less than $100 so that the buyer will make the 3% interest but another 1% from the discounted price. So the value of one's bond portfolio falls temporarily, even though the original agreement to receive 3% and then get your $100 back at maturity is still honoured.

Now this applies first and foremost to Government bonds – which we have shied away from for the past 4 years – which are high credit quality and are very interest rate sensitive. There are several different types of bonds – such as floating rate bonds (interest rates change with the times), short term bonds, lower credit bonds, bank loans and convertible bonds – all of which exhibit a lower to zero negative relationship to interest rates. We continue to add to these positions when rebalancing portfolios and when attempting to lower risk.

Looking forward, the economy is performing just fine by most measures (few signs of an economic downturn in the near future), political uncertainty has increased but market volatility remains at historic lows, and inflation remains benign. We hold our positions and continue to invest cautiously.

For the quarter the bond market was down 1.9%, the Canadian market was up 3.8 %, the US market was up 1.4%, International markets were up 1.1%, the Emerging markets up 4.3%, the REIT market was up 1% and the preferred market was up 1.1%.

Have a great month and let us know if there is anything we can do for you,
Meir

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