TD Wealth

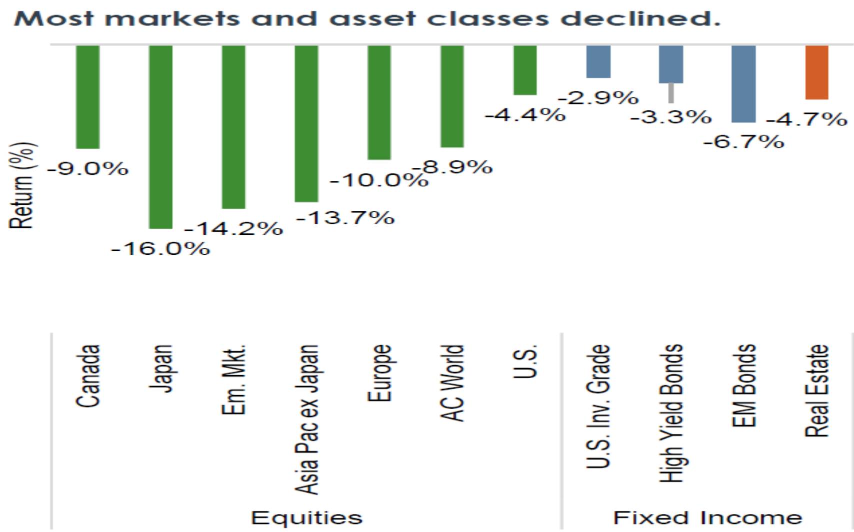
Honest Straightforward Advice

Year in Review

We would like to take this time to wish you and your family a happy new year and to reflect on 2018. Below you will find an overview of how investment markets performed over the past year, as well as some perspective for evaluating your portfolio's results in this context.

How did the markets do in 2018?

After an unusually calm year of solid performance for capital markets in 2017, investors experienced a much bumpier ride in 2018. Downward volatility resurfaced in the first quarter, and though markets moved generally higher through the summer months, a sharp sell-off in the fourth quarter meant that most asset classes registered negative returns for the year.



Source: Thomson Reuters DataStream and MSCI Indexes for all regions and countries, except S&P 500 Composite for the U.S. Index Returns are in U.S. dollars, except for Canada, Japan and European returns, which are in local currency terms. All returns are total returns as at December 31st 2018

So why is the stock market dropping?

There's uncertainty and unpredictability; President Trump.

After his corporate tax cuts, deregulation and pro-business agenda helped stock markets reach highs last January, he has become a major factor causing the 'extreme volatility'. The stock market seems to be uncomfortable with the President taking over economic, diplomatic, legal and military affairs.

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Some perspective on volatility

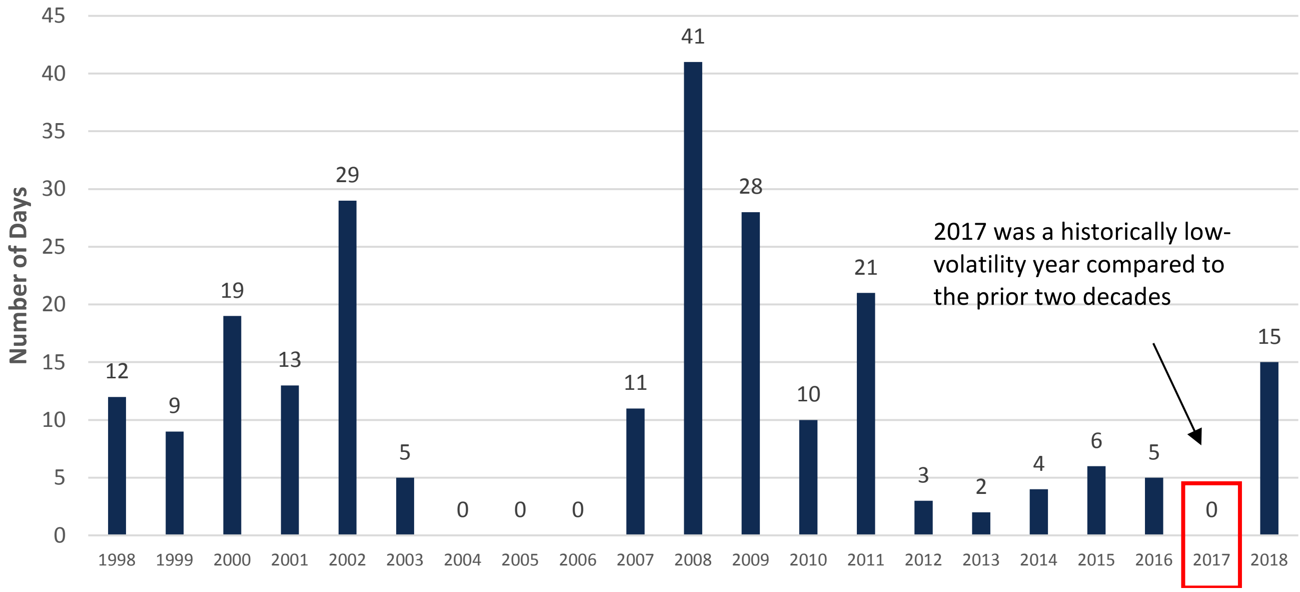
Although it is always difficult to pinpoint a single reason, we believe that several economic and geopolitical developments have been linked to 2018's market gyrations. These include increasing trade friction between the U.S. and its trading partners, particularly China, and the fraught Brexit negotiations between the U.K and the European Union. Rising short-term interest rates in North America are leading to tighter financial conditions, while slower economic activity has weighed on commodity prices – particularly oil – and the materials and energy sectors.

Regardless of the cause, there is no doubt that market turbulence can be unsettling for investors, and 2018's volatile performance was particularly surprising following 2017's steadiness. The reality, however, is that downside market volatility is normal.

The chart below shows that in most years, the S&P 500 will likely experience several days in which the value of the index drops by 2% or more. In this context, 2017 was an outlier with nearly non-existent volatility. Last year, with 15 days registering losses of 2% or more, the level of volatility for the index returned to a more "normal" range.

Downside volatility is normal

The number of days the S&P 500 fell by -2% or more



Source: Bloomberg Finance L.P., CI Investments. S&P 500 TR USD as of December 31, 2018.

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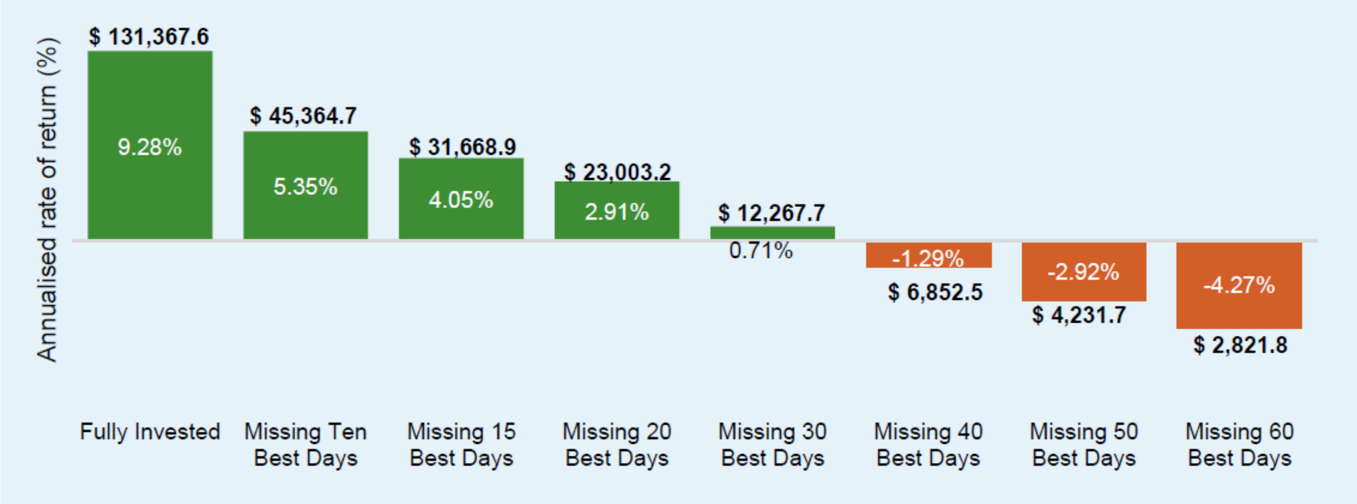
The fact is, market volatility is not always a bad thing. Professional money managers often welcome market declines as a necessary ingredient for positive returns as it creates opportunities to add to existing positions or buy higher-quality businesses at reduced prices. In 2017, asset prices remained elevated, providing few opportunities to shop for "bargains."

Attempting to time the market can be costly

Research studies show that the decisions investors make about when to buy and sell funds cause those investors to perform worse than they would have had the investors simply bought and held the same funds. If you could avoid the bad days and invest during the good ones, it would be great – the problem is, it is difficult to consistently predict when those good and bad days will happen. Since the best days often follow the worst ones, it is advisable for investors to remain fully invested and not reach to market up and downs.

S&P 500 COMPOSITE RETURNS AND THE GROWTH OF $10,000 FROM 1989 TO 2018



Source: Thomson Reuters DataStream. Total return. Data ranges from December 31 1989 to 31 December 2018. Past performance is no guarantee of future results.

What's in store for 2019?

In contrast to last year's consensus outlook that pointed to a synchronized global economic expansion, many professionals now believe we are in the late stages of the economic cycle, with global growth slowing and downside risks increasing. Nevertheless, developed economies are expected to grow throughout the coming year and inflation remains moderate. Global interest rates are low by historical standards, allowing corporations the flexibility to strengthen their balance sheets and invest in the future of their businesses. These conditions suggest a cautiously optimistic outlook for markets in 2019.

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Our advice: stay diversified, and invest for the long term
It can be difficult to set aside short-term distractions and maintain a long-term perspective when negative headlines dominate as they have in recent weeks. But looking back over the longer term, the most recent market decline can be seen as a setback in a strong run upward. From its lows reached following the financial crisis in March 2009 to the end of last year, for example, the S&P 500 was still up more than 270%.

We believe the most important action to take as an investor is to help create a sound, diversified investment plan that takes your time horizon and tolerance for risk into account, and then to stick to that plan through periods of short-term volatility. As asset classes do not typically perform in a correlated fashion, diversification can help to insulate your portfolio from the highs and lows, and can provide a smoother experience over time.

In closing, we would like to thank you for the continued opportunity to work with you and your families. If you have any questions or concerns about your investments, or if your personal circumstances have changed, please do not hesitate to contact our office.

We have two offices to serve you better. Please contact us at the location must convenient for you.

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