TD Wealth

February 2019

Market Update

Important Topic: The only constant is Change

I was recently reading that the self-driving truck may leave over 3 million truck drivers without jobs. While such a change will be unsettling, especially for those directly affected, it is important to put this in perspective. First, the change will not be overnight and people do react, do anticipate. Already the expectation has greatly decreased the number of drivers and the number of people training to be drivers. But. More importantly, change is unavoidable. There used to be hundreds of workers producing horse whips until the car replaced the horse. There used to thousands of telephone operators. Half of the US population used to be employed in the agricultural sector, now only 10% of the population is needed and they are producing several fold the amount of food.

Over the last 30 years alone (since 1989) the Information Technology sector has risen to 25% of the market from 16%. Consumer staples has doubled its weight to 16% from only 8% while Financials has almost doubled to 15% from 7% (and note there was not a single Financial company in the S&P500 until the 1980s) (Morningstar). Amazingly, 80% of the industries that existed in 1900 no longer exist! And 66% of the industries that exist today did not exist then! (Elroy Dimson: *The Millennium Book: A Century of Investment Returns*)

Again, such changes are unsettling. Many governments, unions and social/political organizations have tried, at times, to stop or slow such changes. But even after great expenditure of time and money, they have had minimal, if any, success.

The world keeps changing and no one knows what the future will hold. No one can predict the future, but innovation keeps chugging along and people do live better lives.

In many ways, the poor in America live better lives than J.D. Rockefeller did 100 years ago. The average low-income American, who makes $25,000 per year, lives in a home that has air conditioning, a colour television and a dishwasher, owns a car, and eats more than ever from a huge variety of food. One hundred years ago, John D. Rockefeller was the richest man in the world. He did not have air conditioning, colour television or a dishwasher. He and his family were in danger of dying from what would now be treatable illnesses. Rockefeller could not get fresh food out of season and had a tiny choice of food compared with a modern grocery store. In the end, there will be some struggles and difficulties, but this is not the first time change has occurred and based on the past we should expect to be better off in the end.

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Important Topic: Executor

While most of us ask family or close friends to act as executors of our estate, this may not always be the best course of action.

The reason we appoint family and friends is that we are comfortable that they will do as we ask, and that they understand what we want. We also assume that they will work for less than the 5% of the estate that executors are entitled to.

The difficulties that arise include the cases where the named executor has passed away or moved to another country, does not wish to take on the legal and financial liabilities of being an executor, does not wish to take on the responsibility and time commitment required. Lastly, many named executors have never been one before and thus lack the education and experience that can be very valuable.

A solution to these problems can be the appointment of a Trust company – such as TD Canada Trust – as executor. In this case the executor is permanent (never dies or moves away), understands their legal and financial liabilities and responsibilities, and has the extensive experience and specific education needed. While the Trust company may charge more than family or friends, the advantages may well be worth considering.

If this is of interest, we can introduce you to a member of TD Wealth Private Trust department to discuss the details.

Market Update – January 2019

February was another good month. 2019 has gotten off to one of the best starts of any year. January and February combined have more than made up for what was lost in the December.

It is worth noting the change in expectations and the resulting fall and rise of the markets. Over the last quarter of 2018 the markets became concerned that company earnings would suffer due to the US raising rates, and the economy slowing down. As earnings are the most important variable to the health of the stock market, the concern that earnings would fall triggered the market downturn culminating in the steep decline in December. Then, the Fed announced that they would slow the increase in interest rates and might even stop raising rates for a time. This change lifted the concern and expectations were, once again, for strong earnings. The expectations for stronger earning drove the prices back up. And indeed, earnings were strong, justifying the rally.

While many individual investors were unsure how to react during this volatile time, our managers were well prepared. Proper research and due diligence will always uncover superior companies – superior in strategy, financial health, competitive advantages, products, management etc. The price of such superior companies, however, is usually high. Market swoons such as we experienced in December provide the opportunity to buy these superior companies at reasonable prices. This 'upgrade' to a portfolio is an important part of successful investing but can only be done by those researching many names and establishing a list of companies and, importantly, proper price targets.

We are pleased with the changes we have seen in our portfolios and look forward to their success.

Looking forward, I think the economy is performing just fine by most measures, political uncertainty and volatility remains high (and likely will for the foreseeable future), and inflation remains benign. We are neutral in the short term but positive in the medium and long term. We continue to hold our positions and invest cautiously.

For the month, the bond market was up 0.3%, the Canadian market was up 2.1%, the US market was up 3.6%, International markets were up 2.6%, the Emerging markets were down 1.30%, the REIT market was up 0.2% and the preferred market was up 1.7%. (Reuters).

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

Meir