



Shiuman Ho

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Reminder

Tax-Free Savings Account (TFSA)

For 2020 the contribution limit is \$6,000. For those who have been eligible since 2009, the cumulative total allowable limit is \$69,500.

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A Good Year and a Good Decade

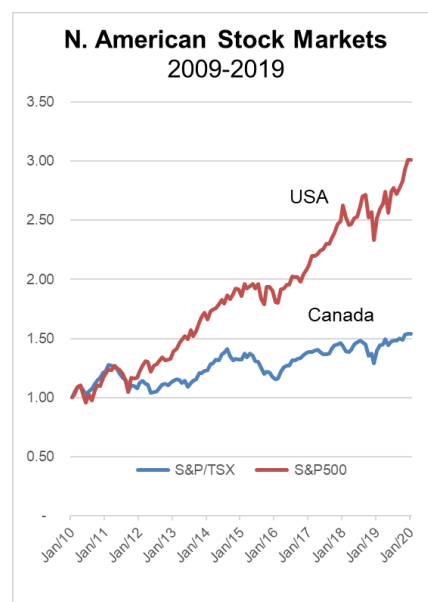
Review of Markets

A good close to 2019

Throughout the year in 2019, analysts and market pundits kept making ominous predictions of a possible market correction. Low interest rates spurred the markets upwards, while trade tensions between the U.S. and China weighed on sentiment. Overall, it was a positive year, with the S&P/TSX Composite Index (S&P/TSX) in Canada closing up 19%, and the S&P 500 Index (S&P 500) of the largest stocks in the U.S. gaining just shy of 29%.

A decade in review

10 years ago we were just emerging from a major recession and financial crisis. After a sharp correction in 2008, a bull market started in March 2009.



Source: Thomson Financial as at Dec. 31, 2019

The chart above shows how the Canadian and U.S. stock market indices performed from 2009 to the end of 2019. The S&P/TSX in Canada advanced 3.8% a year on average, whereas the S&P 500 in the U.S. far outpaced Canada by gaining 11.2% a year on average, before factoring in

dividends. For international markets, the MSCI EAFE (Europe, Australasia, Far East) index gained 2.6% a year.

One factor that provided buoyance to risk-taking was the historic low interest rates which made saving or investing in bonds less attractive. However, no one could have predicted the S&P 500 would recover from its low of 666 in March 2009 to finish 2019 at 3,231 – almost fivefold increase before dividends. The long rally was punctuated by occasional disruptions including the European debt crisis, a faltering Chinese economy, and the end of quantitative easing (QE) by the U.S. Federal Reserve (Fed) and Brexit, just to name a few. The patient investor who did not panic and held steady was richly rewarded in the past 10 years.

A significant driver in the performance in the U.S. stock market was the technology sector. Apple's share price increased by almost 11 times, and Amazon's by just shy of 14 times since 10 years ago. Other big names such as Facebook and Twitter were not listed back in 2009, but have since been a major contributor to the gains.

By contrast, the resource-heavy Canadian stock market saw oil prices drop from over \$120 U.S. a barrel in 2008 to almost as low as \$40 during the financial crisis. Investors in Canada need not feel bad, because no other major market in the world came close to the S&P 500 over the past 10 years.

Canadian dollar exchange

The decade started with the Canadian dollar hovering around parity with the U.S. currency. It ended just below 77 cents U.S. by the end of 2019. Weak commodity prices had kept the Loonie down, which helped Canadian exporters. In addition, global bond yields stayed low, occasionally dipping



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below zero, while U.S. government bonds were relatively attractive.



Source: Thomson Financial as at Dec. 31, 2019

Thus, inflows to the U.S. bond market kept the greenback strong for much of the decade.

Investment Themes for 2020

As long-time readers of this newsletter will know, I don't make predictions – at least not accurate ones – but it is instructive to note a few emerging themes that may affect business and financial markets this year.

The consumer

In the U.S. consumer spending account for around 70% of the economy. With a 50-year low in unemployment rate coupled with moderate wage growth, consumer fundamentals should remain solid. In Canada, the consumer is relatively more indebted and may be more vulnerable to external shocks.

Central banks and interest rates

The Bank of Canada (BoC) has to balance the needs of maintaining growth in the economy but without causing the consumer to go further into

debt or fueling the already hot real estate market. Other major central banks including the Fed will likely act when they detect signs of a slowing economy. Rates are likely to stay low for longer.

Importance of dividends

While it is not possible to predict when the next recession or market correction will hit, it may pay to be positioned more defensively as we watch for signs of storm clouds. Companies with low debt and steady growth in earnings will have the ability to continue to pay and even increase dividends. Over the long term, dividends make up a significant portion of total returns.

Role of technology

The secular trend is for technology to permeate more and more areas of our lives. 10 years ago smartphones and social media were in their infancy; today they are a dominating presence. Much has been written about the rise of artificial intelligence (AI) or the next-generation of wireless technology called 5G. New jobs or entire sectors will be created, and massive profits are up for grabs. However, there will be winners and losers. Many jobs today are likely to be augmented or replaced by AI, much like many of today's factories are populated by robots.

U.S. presidential election

On Tuesday November 3rd the U.S. will elect its next president. The Capital Group, an asset management company, has done research on U.S. election results back to 1932 and its impact on the stock market. It found that the S&P 500 went up in the year following every election regardless of the political party the president represented. However, it also found that markets tend to be more volatile during the primary season. The key is to be patient in order to reap the rewards.

Shiuman's Corner

Good reads for the year ahead



Books from Santa (photo: Shiuman Ho)

Our family's tradition is to open presents on Christmas Day, a ritual that survives to this day even when the children are adults. For the past few years they have had their own means to buy presents for my wife and me, although we all agree not to spend lavishly, and to even share our wish lists so that there is no waste. This year's haul covers different areas of interest in work and leisure pursuits. There was a tome from my son about Jim Simons, the legendary founder of Renaissance, a hedge fund. The spy thriller is my favourite genre of fiction and I have long been a fan of John Le Carré, so I had requested from my daughter his latest output *Agent Running in the Field*. She also put Malcolm Gladwell's *Outlier* in my stocking to keep me up to date with pop culture. The other two books are related areas of interest or activity. One is about the bicycle, from a friend who is a fellow avid cyclist. The other is a collection of short stories, essays and articles about wine, from my wife. I see it as a sort of reward for passing level 2 of the Wine and Spirit Education Trust exam in November. Now I have a wonderful collection of books I look forward to reading all year. Just don't expect book reviews too soon.



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