TD Wealth

Omaha!

An exclusive newsletter from William Barlow, CFA, CIM®, B.Sc., Investment Advisor, TD Wealth Private Investment Advice

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"In investing, what is comfortable is rarely profitable."
-Robert Arnott

Moving the Markets:

Jobs! Believe it or not traditional measures of economic stability still hold sway over the markets as opposed to simple tabloid politics. The strong jobs report here in Canada has led to positive Bank of Canada sentiment, an interest rate hike, a firmer loonie, and hawkish guidance on interest rates going forward

William Barlow, CFA, CIM®, B.Sc.
Investment Advisor
TD Wealth Private Investment Advice
T: 416 512 6676
TF: 800 382 4964
F: 416 512 6224
william.barlow@td.com
willbarlow.com

Ida Solie
Assistant Investment Advisor
idasolie@td.com
T: 416 512 7623

NFL great Peyton Manning will likely be inducted into the Hall of Fame based on his incredibly consistent above average numbers year in and year out. Among the many skills that led to this superior performance was the successful use of the audible, whereby a quarterback changes the play at the line of scrimmage and communicates a new, different play, to his teammates. It's said that the successful use of the audible in professional football can be the difference between mediocrity and dominance. Of all of the similarities between business and sports, when it comes to financial markets and investing, the audible is one that doesn't hold up all that well, and taking it from the grid iron into the markets can end in disaster.

Whether you are honing a sophisticated trading strategy, building a retirement income plan, attempting to maximize your estate, or simply trying to make a little money, calling an audible, in other words temporarily abandoning your process, rarely works well in the short term, and can't be relied upon to consistently work well in the long term. Perhaps more important is that subjective decisions don't provide a playbook for how to act going forward, and the feedback received is rendered useless by our psychological shortcomings. Examples would be a short term trader who should quickly cut losses convincing themselves to hold onto a loser longer, or a retiree looking for tax-efficient income buying Tesla and participating in the Snapchat IPO with the rationalization that just this once it makes sense. Both of these audible calls are clearly mental mistakes.

The reality is that investing is really hard for many reasons. One of the main reasons investing is so difficult is that we are hard wired to think in terms of minutes and days as opposed to years and decades, which sees us making short term decisions with long term assets. Hand in hand with our tendency towards myopic thinking, is our inability to appreciate compound interest or think logarithmically (we tend to think in a linear fashion). For investing to work, you need to be successful over the course of 5 years to a decade, as opposed to 6 months or a year, and allow the growth in one year to be multiplied by growth in the next, and so on. One of the key ways to give ourselves the best chance at success, is to have a process that can be relied on over long periods of time and eliminate the short term temptations to stray from the plan and call an audible.

It may be hard to believe when watching BNN or CNBC, but successful investing not only takes time, it is also relatively boring when done properly. Other than perhaps Paul Tudor Jones, most legendary investors, including the likes of Warren Buffett, Seth Klarman, George Soros, and even traders like Richard Dennis, agree that there is something to be said for simplicity. I would suggest that it goes without saying that if the goal is to generate income, reduce taxes, or preserve and grow an estate, that simplicity, discipline, and process, cannot be overstated.

With all of this said, the paradox of skill suggests that successful investing is becoming more and more difficult as an increasing number of highly talented investment professionals enter the market with more sophisticated tools, better access to information, and a quicker ability to act on that information. The percentage of people who can, on average over time, 'beat the market' was never a majority, and has fallen precipitously over the last nine years. While some of this is thanks to the paradox of skill and some is from the relentless bull market in the United States, the point is that striving for short term, high returns, by straying from your foundational plan, often comes at the expense of long term success. Put another way, what worked for Peyton in football might not work for everyone else in investing.

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What I'm Reading: *Benjamin Franklin: An American Life* by Walter Isaacson. Although Benjamin Franklin is perhaps best known as a founding father and French enthusiast of sorts, prominent amongst the many hats he wore is that of investor. Charlie Munger of Berkshire Hathaway is enamored with the statesmen for eschewing the values of honesty, simplicity, and frugality. It doesn't hurt that the biography is written by Walter Isaacson who is also responsible for well reviewed biographies on Steve Jobs and Albert Einstein, and like most highly regarded biographies this is well worth the read to say the least.

Who I'm Following: Burton Malkiel has gone to the dark side. The investment legend responsible for the classic *A Random Walk Down Wall Street has* academically rebuffed active management for his entire career – until now! As CIO of U.S. based Robo-advisor Wealthfront, the company has rolled out "Passive Plus" strategies which essentially amount to smart-beta, or fundamental indexing. This would suggest that there is hope for active investors in eyes of the ivory tower if not from a purely quantitative standpoint.

Market Folly: Recall that immediately after the publication of *Japan Inc* in the 80's, which lauded Japan's displacement of U.S. hegemony, the Japanese economy imploded and has yet to fully recover. In a similar vein, just years after the book *The Greatest Trade Ever* lionized John Paulson for racking up mind boggling returns in the credit crisis, Mr. Paulson's annualized returns have reportedly been –51%, -19%, 32%, -36%, -3%, -20% from 2011 to 2016 according to Miles Weiss of Bloomberg Finance L.P via his article *John Paulson is Struggling to Hold On to Client Money*. According to the same article, the assets under administration at the once prestigious Paulson and Co. have dwindled to a modest $10 billion, of which only $2 billion is from outside investors.

Reason to be Optimistic: Being optimistic is similar to Pascal's wager in that living a life of optimism, regardless of the outcome, is probably more enjoyable than living a life of pessimism. For proof, a 2016 study from Harvard School of Public Health's Steven Allison found that people with positive psychological attitudes (I have no idea how this is measured but ignore that for now) have fewer heart problems, better cholesterol readings, take fewer sick days, and are more likely to be centenarians.

Outside the Office: Summer is here and with it come the summer doldrums in the markets. This generally manifests itself in my life with a lot of clients being away or generally less interested in discussing their personal finances. Although Maria and I have no holiday plans outside a long weekend in New York City for a wedding, I should be able to spend more time with our sons John and Henry, and if I'm lucky sneak in a golf game (I'm still hopeless) and perhaps even my first mountain bike ride in over two years.

Select Benchmark Returns – To June 30, 2017

Asset Class	YTD	1 Year	5 Years	Asset Class	YTD	1 Year	5 Years
S&P/TSX Composite (Canada)	-0.69%	7.95%	5.54%	CDN Bond Index	2.36%	0.02%	3.29%
S&P 500 (US)	8.24%	15.46%	12.21%	CDN Short Term Bond Index	0.25%	0.20%	1.94%
MSCI Europe	19.07%	20.79%	10.60%	CDN Long Term Bond Index	6.06%	0.40%	4.88%
MSCI Emerging Markets	14.63%	23.87%	9.49%	US$/CDN$	3.46%	0.25%	-4.72%
MSCI Far East	11.56%	20.28%	10.73%	S&P TSX Energy	-13.34%	-1.57%	1.07%
MSCI World	7.30%	18.57%	17.56%	S&P TSX Materials	-0.69%	-7.91%	-4.19%

Source: TD PAIR, TD Securities

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