The Dream Achiever

DD HUMES

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"If you don't build your dream, someone else will hire you to help them build theirs."

~ Dhirubhai Ambani

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The 589 Marshall renovation update

It seems that all renovations have a habit of taking a little longer than we would like. Well here at DD Humes ours are no different. While going through the process of renovating, the scope seems to have expanded like a belt on Thanksgiving Day.

In July, we decided that we would condemn our old stairwell into the basement which was far from a standard staircase and replace it with one where we could safely bring clients down into our boardroom.

Another new idea has been adding some colour to our walls. It is amazing how much some paint can change the feel of a workspace!

The project is really taking shape and we look forward to welcoming you at the new and improved office very soon.

FundEX INVESTMENTS INC.

Finally find value in value?

This year in Montreal the summer was a scorcher. We had so many beautiful clear days and very hot temperatures that really made having access to a swimming pool a valuable asset; while last summer it was cold and wet, making having a pool more of a nuisance. In both cases we are talking about summer weather, yet we have two very different experiences for a pool owner. Like our seasons, the markets change and things come in and out of favour at different times and we have to remember that the flavour of the day doesn't last forever.

During a period characterized largely by trade uncertainty, global asset markets delivered mixed results for the third quarter of 2018. The U.S. equity market was driven to new heights by a narrow set of technology names resulting in it outpacing many of its global counterparts.

In Q3 the Canadian TSX composite finished down -0.34% (0.96% YTD), the U.S. S&P 500 was up 7.71% (10.56% YTD), MSCI World (driven mostly by the US) was up 4.98% (5.43% YTD in USD), due to US dollar strength and trade tensions the MSCI Emerging Markets was down -2.67% (-4.5% YTD in CAD), and Barclays Global Aggregate Bond index down -0.92% (-2.37% YTD in USD). The CAD$ strengthened moderately up 1.8% vs. the USD$ for the quarter but for year-to-date 2018 it is still down -2.55%.*

The U.S. economic growth and earnings data remained strong, and this ultimately overshadowed the concerns around the escalating U.S.-China trade war. The US initially targeted $34 billion of Chinese products with a 25% tariff in early July. Tariffs on another $16 billion began in late August, before a 10% tariff was implemented on a further $200 billion of Chinese goods in September (set to rise to 25% in January). This caused the Chinese stock markets to underperform. Despite these measures, the US equity bull market, which began on March 9, 2009, became the longest in history on August 22nd beating the 3,452 day rally from 1990 to early 2000. This late cycle has been driven by a narrow sleeve of growth names (A.K.A. the FAANG Stocks). On November 6 the markets will be closely watching the U.S. midterm congressional elections where the Republicans could conceivably lose control of the House and, though less likely, the Senate.

The Canadian market's muted performance has been the result of weakness in the energy and materials sectors, the uncertainty of trade talks with the U.S., and a slight decline in the value of the CAD$ vs the USD$. That being said, after more than a year of teeth-gnashing and thanks to intensive negotiations the NAFTA talks between Canada and the USA (Mexico was already on board) were resolved minutes before the midnight deadline on September 30th resulting in a new trade deal named USMCA (United States-Mexico-Canada Agreement). September 30th had been a key deadline as it was the last possible moment that would permit Mexico's current President to sign the deal after the minimum 60-day notice, given that President-elect Obrador will take over on December 1st. Realistically, the deal could still have been struck at a later date, but with greater political complications on Mexico's side.

Interest rates continued to move up in the quarter. The Bank of Canada left its benchmark interest rate at 1.5% in September following a 25-basis point hike in July. The U.S. Federal Reserve responded to the labour market's strength and the continued growth of economic activity by raising its target rate to the range of 2% to 2.25%, its highest level since April 2008. Ten-year government bond yields in Canada and the U.S. rose throughout the period causing negative bond index returns for the quarter.

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Market Overview Continued

Though the economic cycle is entering its later stages, business conditions in many regions of the world remain solid, and it is impossible to predict when the next downturn will occur. Many studies have shown that attempting to "time the market" by selling your investments before a downturn can be counterproductive, as investors often miss out on significant market gains after they have cashed out or fear of re-entering the market. Having a personalized long-term investment plan that reflects your objectives and staying true to that plan through market highs and lows typically yields better results.

We have seen the masses trying to pile into these U.S. growth funds late in the game in order to ride the wave of momentum that they have had, but we'd like to remind you that going forward the best performing funds may be with the value fund managers which may have underperformed during the market's hot run upward but they tend to be the ones that weather the downside with much less volatility. Just because it may be a cold or rainy summer, don't rip out your pool because when the sun eventually comes back you'll be happy you still have it. If you have any questions about your plan, the markets, or your portfolio please feel free to contact us.

Planning items

- **RRSP Contribution Room for 2018:** Please provide us your room for the 2018 tax year when you receive your 2017 Federal Notice of Assessment. The maximum limit for 2018 is $26,230. You may need to adjust your automatic savings plans for the coming year accordingly.
- **Registered Education Savings plan (RESP) contributions:** Quebec beneficiaries get the added 10% QESI grant from the provincial government increasing the overall grant to 30%! 2018 room now available.
- **Tax Free Savings Account (TFSA):** A new $5500 of room available since January 1, 2018. Total room since 2009 is $57,500.
- **Conversion to RRIF account:** Those of you who turn 71 years of age in 2017 (born in 1947) will need to convert their RRSPs into RRIF accounts before the end of the year. All clients should have been contacted by now.
- **Your Annual Review:** It is important to inform us of any changes taking place in to see the effects on your plan.
- **$2K pension deduction:** Those who turn age 65 or older and not already receiving recognized pension income.

The Planning Corner: Risk is what you own, not what you don't

I recently had lunch with a representative from one of the investment firms that we do business with who gave me the idea for this edition of the planning corner. He showed me some interesting data from some of the more historic market drops in US history. One thing that seemed to prevail in every one of the drops was a general euphoric mood of the market which bid up "hot stock" prices to historically high price/earnings (PE) ratios levels before the markets pulled back significantly. This resulted in these very same hot growth stocks giving investors much larger losses then the market when it turned. Let us take a look at how history repeats itself.

The not-so **"Nifty Fifty"**: On Dec 31, 1972 the basket of 9 "hot stocks", which included familiar names such as Xerox, JC Penney, Walt Disney, I.F.F., Coca Cola, American Express, IBM, GE, and McDonalds that had an average trailing P/E of 48 times versus the overall S&P 500 at 19 times earnings. When the market crashed between Jan 11, 1973 and Dec 6, 1974 these "hot stocks" dropped by **-62%** while the S&P 500 index was down -46%.

The **Dot-Com bubble of 2000**: On March 10, 2000 a basket of 9 "hot tech stocks", which included Xilinx, HP, Intel, Cisco, Dell, Microsoft, Oracle, Qualcomm, & IBM had an average P/E of 96 times versus the overall S&P 500 index at 28 times earnings. When the market crashed between March 10 and Oct 9, 2002 these stocks dropped an average of **-71%** while the S&P 500 index was down -44%.

Today: What is old is new again: On July 31, 2018 a basket of 9 growth stocks which have really driven the S&P 500 index forward including Apple, Amazon, Alphabet, Microsoft, Facebook, Netflix, NVIDIA, Salesforce, & Pay Pal have an average trailing P/E ratio of 93 times versus the overall S&P index that which is closer to 23 times. As you can see there has again been a wide gap created between the basket of these tech names and the overall index which has been driven by euphoric market demand without much consideration towards the price people are paying for the earnings that a company is generating. The boring value stocks have been left for dead and this makes me wonder if this would be a good time to think about rebalancing your portfolios including some funds that have more of a value style that likely will protect better on the downside and yet have strong performance over time.