2018 TORONTO DUE DILIGENCE

Insights | Opinions | Outlook

To kick off the year, we spent two days with several investment specialists who manage portfolios for Counsel Portfolio Services and IPC Private Wealth at our annual Toronto Due Diligence conference. We talked about the markets' seemingly unstoppable rise and asked how much further this bull market could run. The following summarizes the key messages we heard.

Basking in a Bull Market? Caution Ahead…

Investors entered 2018 on the coattails of the bullish optimism we saw in 2017. Remarkably low volatility, synchronized global economic growth, and President Trump's recent tax cuts have continued to buoy investor confidence and support the rally. While our managers suggest the trend may continue, they warned that markets are frothy. You don't have to look far to find cautionary signs, they said. Anything from higher interest rates, the shift into risker assets, or a change in policy direction (e.g. NAFTA) could spike volatility in a flash, they added.

Opinions were, however, consistent on one front: it's impossible to see just when this market will turn. We are in the midst of one of the longest, and strongest bull markets seen in a long time. "People always believe they can time their investments," said Tom Marsico of Marsico Capital Management, adding that he's never seen success in trying to do so.

"There's always a million surprises," added Peter Lampert of Mawer Investment Management. So, rather than predict the next surprise, "it's better to build a portfolio to withstand sudden shocks," he added. It's an approach that Mawer along with many of our other managers stand firmly behind when it comes to how they invest your portfolio.

BITCOIN AND MARIJUANA – HYPE OR OPPORTUNITY?

Canadians, like many investors elsewhere, have been caught up in what we call "noise." It's the hype that comes from news headlines that easily distract investors from a carefully defined investment plan.

Search terms such as "The Price of Bitcoin" and "Marijuana Stock" made it to the top of Google Canada's *2017 Year in Search* list. The excessive interest from investors in the crypto-currency and cannabis markets was something our investment panel tackled. So, is this an opportunity to get in on?

"Short-term investing is emotional," remarked Kim Shannon of Sionna Investments, noting that the euphoria in these markets may have quick gains but they are also fraught with incredible risk. "Investing in the long term mutes the noise in the short term," she added. All of our managers said they were staying away from this hype.

TRADE AND TRUMP

January 20th marked President Trump's one-year anniversary, which spurred discussions on his next move and what effects it could have on the markets. As trade tensions rise between the U.S. and its trading partners, our investment specialists say it's difficult to predict the full consequences of an end to NAFTA.

If NAFTA ends, the Canadian agri-food and automotive sectors could be among the hardest hit, given the level of trade integration between the U.S. and Canada. This could trigger volatility, particularly for Canada, and hurt the country's economic growth. In the short term, there would also be some downward pressure on the Canadian dollar. Though a pullout from NAFTA is not yet a reality, it has spurred a wakeup-call for Canada to find new ways to make the country more attractive to domestic and foreign investors.

Over the past few years, our Portfolio Management Team has underweighted allocations to Canada and tilted your portfolios towards more attractive risk-return opportunities in international markets. This, they believe, will help minimize some of the short-term negative effects should Trump pull out of NAFTA.

INTEREST RATES ON THE RISE

Interest rates are poised to keep rising gradually in Canada due to the high amount of debt in the system. The U.S. has seen five rate hikes over the past few years, with another two or three more expected this year. Rising interest rates will benefit the banks and financial sector, but it also means higher debt levels, more expensive loans, and a slowdown in discretionary spending. Our investment specialists continue to monitor this closely and will adjust their approach should inflation or interest rates increase.

In this rising rate environment, our Portfolio Management Team and our investment specialists have been managing the risk and protecting capital by adding exposure to high quality fixed income securities and shorter duration bonds with laddered maturities. They also maintain strategic allocations to high-yield, global, and emerging market fixed income securities, so investors can benefit from higher yields and increased return potential through this diversification strategy.

SUMMARY

Overall, the heed for caution and discipline was clear. "The clock for when this bull market will end has started ticking," said David Picton of Picton Mahoney Asset Management. "So whether it's a year or two from now, it's essential to have a balance of protection built into your portfolio," he added.

At times like these, we believe it is more important than ever to understand how your investment strategy can help you achieve your goals. Our investment specialists stick to their disciplined process to pick high quality investments for your portfolios. Our Portfolio Management Team helps ensure that your portfolio objectives are met – adding downside protection through trend following strategies, active currency hedging and portfolio rebalancing – so you can focus on your goals without getting caught up in the noise.

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