West End Wealth Fall Market Commentary

As we transition from summer to fall, I thought that it was a perfect time to follow up on my January 2017 commentary.

As always, the news has been filled with sensationalized events. Whether it is hurricanes Harvey/Irma, interest rate increases, North Korea, or Donald Trump, the media has continued to largely project white noise. While these events may help television ratings, in reality, they rarely have any long-term impact on a well structured financial and investment strategy. As a prudent investor, it is important to ignore the media noise, and stay committed to your investment strategy, and achieving your long term financial goals.

As clients review their year-to-date performance, we think that many will be surprised at their disappointing returns. However, these returns should not be surprising given that the S&P TSX is up a mere 0.72% this year-to-date (including dividends) while the FTSE TMX Canada Universe Bond Index is essentially flat, up only 0.33%. Further compounding the issue is that the Canadian dollar is up 10.25% this year, eating away the majority of the 11.5% return for those who are invested in the S&P 500.[i]

2017 Index Returns

Index Type	3 Month Return	YTD Return
	6/1/2017 →8/31/2017	1/1/2017 →8/31/2017
FTSE TMX Canada Universe Bond	-5.95%	-2.59%
S&P/TSX Composite TR	-0.15%	1.35%
S&P 500 TR USD	-4.39%	4.65%
MSCI EAFE GR USD	-4.66%	9.85%

Looking Ahead

While index returns have been muted during 2017, there is good news

1. The 20 largest economies are all showing positive growth. This is the first time since 2010 that all have been in positive sync.
2. Corporate profits have been generally strong and increasing.
3. Market volatility has also been very low as measured by the VIX volatility index.[ii]
4. Unemployment in Canada and the US are at there lowest points since the 2008 recession.
5. Valuations are generally considered full in the US, although not excessive. Canada is becoming more reasonably priced similar to international markets.

I noted in my winter commentary about how our global diversification strategy had kept client portfolios with positive returns during 2015 despite S&P/TSX dropping 11.4%. We continue to strongly believe in this approach which has lifted overall returns during 2017 as the Canadian markets have generally gone nowhere.

Going forward, for clients outside our fully managed discretionary portfolios (IPC Private Wealth) we continue to recommend high quality, lower volatility equities, ETFs, and balanced pools. While our portfolios may not be the most exciting, and you may miss out on short-term returns from the hot sector of the day, this has been done with a purpose. Over the long-term, boring portfolios like this have generally outperformed more “exciting investments”. While you may miss out on some short-term thrills, we like to think that making money in the long-term is exciting.

Generating reasonable returns from fixed income continues to require creativity in todays low interest rate environment. We will continue to focus our recommendations on;

1. Canadian high yielding mortgage: (Mainly Firm Capital and Timbercreek Financial Corp) which provide a generous yield of 7% along with daily liquidity not available with many other high yielding mortgage products.[iii] [iv]
2. Pimco Monthly Income: This pool takes a tactical approach and invests world wide using hedging to eliminate currency risk and includes a healthy annual yield of approx. 4%[v]

3. Mackenzie Unconstrained Bond Fund ETF: This ETF minimizes volatility from interest rates or widening credit spreads by tactically adjusting the underlying holdings in the portfolio, and yields about 5%.[vi]
4. Sprott Bridging Income: Available only to accredited investors, this fund has historical returns of more than 6% with minimal historical volatility.[vii]

We will continue to work diligently on those things that actually make a real long term positive difference for your financial future. As always, if you have any questions or concerns, please do not hesitate to contact us.

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i Pelletier, Martin. "It's been a bad year for Canadian investors, and here's why things will get worse." Financial Post 09/18/2017.

ii VIX is the ticker symbol for the Chicago Board Options Exchange (CBOE) Volatility Index, which shows the market's expectation of 30-day volatility. It is constructed using the implied volatilities of a wide range of S&P 500 index options.

iii http://www.timbercreekfinancial.com/

iv http://firmcapital.com/wp-content/uploads/2016/02/FCMIC-Fact-Sheet.pdf

v https://www.pimco.ca/en-ca/investments/mutual-funds/monthly-income-fund-canada/cadf-cad-unhedged

vi https://www.mackenzieinvestments.com/en/assets/documents/etfs/ex-mub-en.pdf

vii http://www.bridgingfinance.ca/wp-content/uploads/2016/09/sprott-bridging-income-fund-brochure.pdf