



## STAFF STUFF

The greatest joy in the office was the birth of Dave's little girl, Mackenzie. We enjoy watching her grow through pictures while watching Dave grow more tired, in real life. The rest of us travelled, coached, knitted, cruised, golfed, enjoyed good health and had some fun. We hope you did too and may your resolutions outlast your troubles.

## MARKET UPDATE

### Tabula Rasa

The fresh canvas of 2019 is a welcome sight. 2018 is not a year investors will look back upon fondly. Of the 37 stock markets listed in *The Economist*, only four finished 2018 in positive territory (India 5.4%, Saudi Arabia 7.8% Brazil 19.1% and Argentina 3.4%). Of the remaining 33 markets 24 of them were down by double digits.

After a smooth and rewarding 2017, the first cracks appeared in February when stocks dropped 10% before rebounding. That flash correction proved to be the return of volatility which snowballed through the year to the point where we were seeing 1,000 point swings in the Dow Jones Industrial Average (DJIA). Last year investors crossed the New Year's threshold with boundless optimism only to be left with a lump of coal. This year, by contrast, we crossed with sweaty palms and knocking knees after a year punctuated with the worst December since the Great Depression. So what will we be rewarded with in 2019?

### Canada Goose Bumps

Canadian investors are weary and wary of domestic equities as they stayed cold. They fell short in 2017 and in 2018 we saw the TSX drop 11.64%. Some of the damage came from trade tariffs, and talks of more tariffs, while some came from higher interest rates in a country teeming with record consumer debt, and of course the oil patch made their contribution thanks to particularly weak Canadian oil prices. There was a momentary swoosh of optimism when the three North American economies came together on NAFTA 2.0 formally known as USMCA. The markets, however, barely registered the event and the steel tariffs that were imposed by the U.S. to bring folks to the bargaining table remain intact.

Canadian companies outside of the energy sector continued to post strong profits, we continue to have a tight labour market, and inflation does not appear to be a threat at this point. The Bank of Canada will have something to say about where markets go from here. They may be reluctant to act as hawkishly as previously indicated in light of recent stock market activity. In other words, bad news for the economy may not be bad news for the market.

### Make America Governed Again

The U.S. is starting 2019 with a partial government shutdown over a disagreement about funding the proposed southern border wall. While this particular conflagration may not register a meaningful economic impact (unless it carries on), it is among the litany of issues that are creating enough chaos to generate concern. For the first part of the year, markets shrugged off the sideshows and embraced the riches of favorable tax policy that resulted in record share buybacks and higher dividends. The FAANG (Facebook, Apple, Amazon, Netflix, Google) stocks lead the market higher and higher until the concern about valuations turned into action following some controversial rate hikes that drew considerable rancor from the President. By the end of 2018, the stock market had given back all of its gains for the year and then some. After two very miserable pre-Christmas sessions, however, December 26 registered the largest single day point gain on the Dow Jones in history as it jumped 1,086 points. After all was said and done for 2018, the S&P500 Index posted a loss of 6.24%, the DJIA was down 5.63%, and the NASDAQ had dropped 3.88%.

### Excuse me; do you know where the Brexit is?

European stocks were broadsided by trade tariffs and political brushfires, most notably in Italy, with the German DAX declining a monstrous 18.26%. Headlines however seemed to be dominated by the "will they or won't they" Brexit fiasco. For every step forward there seemed to be two steps back to the point where Theresa May barely survived an attack by her own MPs who disapproved of her separation strategy. There has even been talk of having a new referendum. Britain is scheduled to leave the EU on March 29, 2019, so there will be more on this next time.

European stocks have also been burdened by a slowdown in China where momentum has slowed as a result of government efforts to curb lending. This weakness is of particular concern to retailers of luxury goods and retailers in general who depend on Chinese buyers. Overall the European Markets dropped 14.6% as measured by the EURO STOXX 50. China's Shanghai Composite Index fell by 25.5%.

### The old normal

As we have noted, volatility is back and in rare form. We had a particularly high dose of it in the fourth quarter with credit and blame ascribed mainly to the future direction of interest rates. Yes there were other contributing factors including, but not limited to, chaotic trade policy out of the United States. It seems unlikely that the chaos will subside south of the border but few equity managers are predicting a recession in the United States over the next twelve months. The rhetoric from the FED these days does seem to favor moving more deliberately and expectations for interest rate increases on both sides of the border have been tempered. Ironically, the weakness we have seen in stocks may further slow the pace at which rates increase and leave room for stocks to recover.



Another factor that helped to make 2018 particularly bad was that there was no safe-haven. Traditionally bonds have been the “risk-off” trade when the ride gets bumpy but even low risk investments suffered this year with global investment grade bonds down 3.7% for the year.

The extreme market volatility on display over the last few months naturally makes investors nervous. For long-term investors however, it is important to look beyond the headlines for yesterday’s news and consider their investment goals. Bad markets end and how you manage through them will determine your eventual success.

## Adventure of a Lifetime: Arctic Safari Cruise

By Judi and Geoff Parker

A group of about 20 narwhal, young and old, frolicking in shallow water beneath massive rocky cliffs, repeatedly rubbing against the sandy bottom to help exfoliate their moulting skins. A polar bear and her cubs swimming along the lip of a 4 km wide and 0.5 km high glacier, then hauling out on an ice floe to feast on a seal. Bright red, green, blue houses in coastal Greenlandic villages. Inuit musicians, dancers, and athletes performing and sharing insights into traditional culture. The graves of two RCMP officers, surrounded by a white picket fence, above ice-filled Dundas Harbour under a brilliant blue sky. Bright arctic flowers, many only a few inches high, blooming in the thin rocky soil that, only a few weeks ago, was still frozen. Residents of high arctic towns welcoming us to their communities. Watching icebergs float by the porthole of our cabin.

These are just a few of our memories from the Arctic Safari expedition cruise led by Adventure Canada that we enjoyed in August 2018. Every day of this trip was truly an adventure, from the beginning until the end, as we realized one of our “bucket list” dreams to see first-hand the high Arctic.

Our adventure started in Kangerlussuaq, Greenland, at the head of the incredibly beautiful Søndre Strømfjord, 190 kilometres inland from its mouth on Davis Strait. There we boarded our home for the next 12 days, the Ocean Endeavour, a 1B Ice Class expedition ship. Joining us on the ship were 190 passengers and an Expedition Crew including twenty experts in marine biology, archeology, botany, ornithology, geology, and history as well as

Inuit cultural ambassadors, authors, photographers, artists, and musicians.

Over the 12 days, we visited numerous communities and wild destinations, including Kangerlussuaq, Nordre Strømfjord, Sisimiut, Ilulissat, and Uummannaq in Greenland and Davis Strait, Pond Inlet, Croker Bay, Dundas Harbour, Morin Point, Icy Arm, Buchan Bay, and Isabella Bay in Nunavut. Whether we were cruising on the ship, by zodiac, or exploring on land, the staff took great care to ensure that all logistical details were sorted so we were able to devote our time and energy to simply experiencing the opportunities presented.

In addition to land adventures, time spent on the ship was never boring. The decks were open to travelers to enjoy at all times. Daily information sessions led by experts on the culture, history, geology and wild life of the area as well as late afternoon recaps of the day’s experiences helped us understand what we were seeing and doing. The food was always abundant, fresh, and delicious. After dinner entertainment included music, dancing, and movies about the Arctic and Inuit.

In selecting the trip, our primary objectives focused on the geography, the scenery, and the wildlife including flora and fauna. All those things were truly phenomenal and exceeded our expectations. However, the most powerful and memorable aspect of the trip was the insight into the culture, history and daily life of the Inuit peoples of Nunavut and Greenland. Having the cultural ambassadors on board who shared so openly their personal experiences was truly transformative.

There is an old adage that says “the traveler who leaves is not the traveler who returns”. That was certainly true for us on this trip.

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