

Portfolio Management Monthly Update

March 2018

The Roller Coaster Market Continues.

Even with the recent spike, volatility is not greater than it has been in the last 20 years. In fact last years' low volatility was the historic outlier. *(Rochon, Stephane, CFA, PAT Equity Strategist, BMO Portfolio Advisory Team)*

The S&P 500 is down 5% vs 2 weeks ago & down .56% for the year, while the TSX is down 5.6% year to date. *(BMO Portfolio Advisory Team, Early Edition Markets This Morning, March 27, 2018)*

The recent retest of the low was a fairly standard affair according to Russ Visch, our technical analyst. On this second sell off the volume & volatility are lower, price momentum is not as dramatic resulting in positive divergences (some stocks don't drop). This set up has defined every major trading low in the past 30 years, including the 1987 crash & the 2008 credit crisis. *(Visch, Russ, Technical Analyst, Daily Technical Comments Mar 27, 2018)*



It does look like more volatility maybe here to stay due to worries about inflation, higher interest rates and now trade wars. We are not looking for a bear market however because economic growth is strong & Q4 earnings were the best since Q3 2011. *(Gunderson, Bill, Gunderson Capital Management, Newsletter March 24, 2018)*

S&P 500 Held support at the 200-day moving average for the 4th day in a row while short-term momentum gauges are turning positive from oversold extremes. *(Technical Analysis, Daily Action Report, March 29, 2018)*

The US tax cut isn't in earnings yet & the recent sell off has the S&P 500 under 17x 2018 expected earnings. This is a reasonable valuation considering currently low interest rates & inflation.

How We Are Managing Portfolios:

We have traded to take advantage of volatility. Taking profits on technology stocks such as Lam Research & Fortinet* (24% in 1 month & 40% in 6 months respectively). Canadian Energy stocks have been difficult and are currently oversold; we are underweight.

Recently bought Enbridge in income accounts since it fell 25% from the top, and now yields 6.5%. The sell off in high yield stocks is overdone.

We are utilizing nimble portfolio managers, such as Mark Schmell who runs the Fidelity Special Situations Fund & the teams running Edgepoint Global & Manulife Dividend Funds. All these funds like to sell a little on good days & buy on bad days to improve performance.

Our favoured sectors remain Consumer Discretionary, Technology Industrials & Global Financials. Interest sensitive utilities & telecom are over sold & should be due for a bounce.

We are also keeping bond maturities very short (defensive) & have sold any bond funds which were weak. If you have any questions about the above information, please feel free to contact our office. We hope that everyone has a fabulous long weekend!

Regards,

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