Gottesman Wealth Advisory BMO Nesbitt Burns

Let's connect

Gottesman Wealth Advisory
BMO Nesbitt Burns

Abe Gottesman, CFA, MBA
Investment Advisor, Portfolio Manager

Victoria Karkar
Administrative Assistant

1 First Canadian Place
38th Floor
M5X 1H3
Tel: 416-359-7721
Toll Free: 1-800-263-2286
www.GottesmanWealthAdvisory.com

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Gottesman Wealth Advisory Team newsletter

As I write this newsletter on New Year's Day, I would like to take this opportunity to wish everyone a Happy and Healthy New Year.

While there is no shortage of topics to talk about, I think it makes sense to talk about the stock markets in 2018. I've never made stock-market predictions before and I'm not going to start now. For that matter, while I don't have brilliant insight into what happened in the past, I would like to share a few thoughts.

Obviously, 2018 was not a great year for the stock markets. In fact, December saw the S&P 500 drop 9.2% alone – the worst December since 1931! I have only 1 client who was alive in 1931.

In fact, here is how major markets performed this year:

The S&P 500 fell 6.2%
The Dow Jones Industrial Average slid 5.6%
The Nasdaq Composite dropped 3.9%
The TSX slid 11.54%
The Russell 2000 fell 12%
The Stoxx Europe 600 declined 13%
The MSCI Asia Pacific Index dropped 15%
The MSCI Emerging Markets Index slid 16%
Ten-year Treasury yields gained 28 basis points.
The Bloomberg Dollar Spot Index advanced 3.2%
The Japanese yen rose 2.8%
The euro dropped 4.6%
West Texas crude declined 25% to $45.41 a barrel

However, as my clients know, for me, it is all about the long-term, not any one year. In fact, here is a quote from Geoffrey Rubin, senior managing director and chief investment strategist at Canadian Pension Plan (country's largest pension fund). “We look very closely at five- and ten-year returns, that’s what we put particular prominence on when we think about our performance.” I could not agree more!

For investors with a long-term horizon, the environment remains very good for stocks – high single digit earnings growth, still low interest rates, 2.5 per cent to 3 per cent GDP and increased dividend growth. I believe that now is a good time to shop for high quality dividend stocks that have been caught in the market downdraft. Investing in high quality dividend growth companies is an excellent strategy in any market environment, but during periods of turmoil investors may be especially glad to receive the steady cash flow that dividend companies offer. The key is to identify companies with strong balance sheets, good cash flows and discipline to maintain dividend payments during declines.

Second of all, as far as volatility goes, 2018 was actually a normal year. Going by one indicator, the average daily value for the CBOE Volatility Index, 2018 isn’t far from the median year in terms of the size of equity swings over the past quarter century. The VIX averaged 16.6 over the 250 trading days, the 12th-lowest reading since 1993.

But take the number and compare it with 2017’s average of 11.1, and the difference -- the rate at which swings widened -- starts to get historical.

Look at it this way. Over the last 12 months, the mean wire-to-wire move in the S&P 500 was 1.88 percent per calendar week, almost three times the previous year’s average change. **The ratio between the two is larger than any other single-year increase since at least 1929, data compiled by Bloomberg show.**

For those of you who are considering temporarily “cashing out” (going in to cash), I would like to share with you an incredible study. If an investor put $10,000 in the TSX on Dec 31 1987 and left it there for 30 years (talk about buy and hold), then by the end of 2017, the $10,000 would have grown to $51,293.90. However, if the investor would have been the most unlucky investor in the world and missed the top 1% of all trading days over the 30 years, then the same $10,000 would be worth $4,293.45. Unbelievable! That is not a misprint. The investor would have lost money, in fact, more than half of their money, by missing out on just the top 1% of all trading days. There are a few takeaways from this study but I think the key one is that the stock market is not linear and one does not want to miss any days because missing just a few days can make all the difference in the world.

In closing, I would like to wish everyone once again a happy and healthy new year and let us hope that 2019 brings good tidings to everyone especially in the stock market.