Justwealth 4th Quarter 2017 Market Commentary

Markets finished off 2017 strongly in the fourth quarter despite a bit of a pullback in the month of December. Looking back over the full year, investors should be pleased overall with above average returns in most equity markets and a modest positive return in bonds. Gross performance in all 63 of our Justwealth portfolios was positive for the year ranging from a low in our Capital Preservation portfolio of 2.87% to a high of 23.39% (in U.S. dollar terms) in our U.S. Maximum Growth portfolio. Overall, performance was in line with our expectations given how the underlying major markets performed.

Economic momentum in Canada and the United States remained strong throughout the year with GDP and employment data showing steady and stable growth while inflation numbers continue to stay muted. Central banks on both sides of the border tightened monetary policy in anticipation of increasing inflationary pressures and this was a major factor in explaining the lacklustre performance of bonds. The relative strength of Canada vs. the United States helped to push up the value of the Canadian dollar by roughly 8% last year against the U.S. dollar, causing U.S. equity performance to be 8% lower after accounting for currency movement from a Canadian perspective. International equity was the top performing major regional sector in 2017 – apparently Brexit was not such a big deal after all!

It is very common at this time of year to come across forecasts or opinions on market outlooks for the upcoming calendar year from numerous financial firms, investment "experts", or economists. We strongly encourage our clients to pay no attention to anything that you see, hear or read with respect to any type of predictions, whether they apply to stocks, interest rates or the price of bitcoin. There are two reasons why we suggest this: nobody knows with certainty what will happen in the future (making forecasts essentially worthless); maintaining your focus on your longer term financial objectives will help you reach your goals more effectively than chasing short-term speculative bets that go against your long-term principles.

As we mentioned in our newsletter at this time last year, equity market returns in general have been abnormally high for quite a few consecutive years now. While this pace may still continue for some time, it could reverse course at any time for any reason. Conversely, bond performance has lagged over the past few years, prompting many of our clients to question if they should be reducing the bond allocation in their portfolios. Similar to equities, bond weakness could continue, or there could be a rebound in bond prices – we don't know, any neither does anybody else! What we do know is that bonds are less volatile than equities, and if there was a sharp decline in equity prices, bonds would likely help insulate your portfolio and limit the amount of downside. The important question that we think our clients should be asking when thinking about their investments is "Do I have the right level of risk in my portfolio?" because ultimately, you can control the risk in your portfolio, but you cannot control returns…

Here is a recap of market performance as of December 31, 2017*

Asset Class	Market Index	Quarter	1 Year	3 Years	5 Years	10 Years
Fixed Income	FTSE TMX Canada Universe Bond	2.02	2.52	2.56	3.01	4.67
Canadian Equity	S&P/TSX Capped Composite	4.45	9.10	6.59	8. 63	4.65
U.S. Equity	S&P 500 ($Cdn)	6.84	13.83	14.37	21.24	11.12
Int'l Equity	MSCI EAFE ($Cdn)	4.42	16.82	10.65	12.98	4.40

** Performance annualized for periods greater than 1 year*