Justwealth 4th Quarter 2018 Market Commentary

Pessimism prevailed globally in the fourth quarter of 2018 as equity markets turned in one of the worst quarterly performances in 10 years! The selloff resulted in many major market indices turning in negative performance for the full year and leaving them firmly in correction territory. The U.S. equity market was among the hardest hit, as the S&P 500 dropped -13.52% in U.S. dollar terms but was sheltered by a strengthening U.S. dollar leaving returns down only -8.62% in Canadian dollar terms. The S&P/TSX Composite fell by -10.11% and the MSCI EAFE Index declined by -7.58%. Bonds actually turned in a pretty solid quarter advancing by 1.76% and salvaged what has been a pretty disappointing year for bonds.

Reflecting on the past year, our portfolios performed as should be expected given the market performance. Our top performing portfolio was the Justwealth Capital Preservation Portfolio which managed to generate a positive return for the year, and our lowest returns would have been in our Justwealth "Maximum" Portfolios. Digger a bit deeper into market returns, the more volatile equity assets classes such as small or mid-cap equities and emerging markets generated lower returns than each corresponding broadly established large cap and developed market index. In fixed income, the more conservative short-term bonds outperformed longer term (and thus more interest rate sensitive) bonds. In terms of surprises or temporary anomalies, REITs performed unexpectedly strong given poor Canadian equity returns, and preferred equity shares performed below where we would have expected. Consequently, preferred shares became a focus for our tax-loss harvesting strategies for our many clients with non-registered accounts.

As we mentioned in our Fourth Quarter 2017 Commentary, the scenario that played out in 2018 was a distinct possibility – and it could play out again in 2019! Negative market returns are normal over shorter periods of time and investors should neither be surprised nor disappointed when they occur. An important message that we consistently tell investors, is that it would be pointless to try and "position" your portfolio for where you ***think*** the market ***might*** be headed in the short term. You will either be right, or you will be wrong – inevitably you will be wrong at some point and empirical evidence would suggest this is a poor investment strategy. In our view, a far more important consideration is to make sure that you have the right level of risk in your portfolio. Whether the markets go up or down, understanding and being comfortable with the level of risk in your portfolio allows you to know roughly how your portfolio should be performing in any particular market scenario, which helps minimize uncertainty, and hopefully allows you to sleep better at night. If you are not currently sleeping well, we'd suggest you contact your Personal Portfolio Manager at your earliest convenience to see if we can help. Best wishes for 2019!

Here is a recap of market performance as of December 31, 2018*

Asset Class	Market Index	Quarter	1 Year	3 Years	5 Years	10 Years
Fixed Income	FTSE TMX Canada Universe Bond	1.76%	1.41%	1.86%	3.54%	4.16%
Canadian Equity	S&P/TSX Capped Composite	-10.11	-8.89	6.37	4.06	7.92
U.S. Equity	S&P 500 ($Cdn)	-8.62	4.23	8.64	14.08	14.27
Int'l Equity	MSCI EAFE ($Cdn)	-7.58	-6.03	2.29	5.71	7.40

** Performance annualized for periods greater than 1 year*