

## Long-Term Focus Required in Light of Market Downturns

Markets stabilized today after yesterday's sell-off in U.S. equities left the S&P 500 Index down -3.1%, with losses in 13 of the last 14 days. Mixed corporate earnings and weak housing data fueled concerns that rising prices driven by the U.S.-China trade war, along with rising interest rates, are beginning to crimp economic growth and putting an end to the ongoing expansion of corporate profits. Stocks also fell in Canada and in markets across the globe.

In our view, there appears to be a herding effect going on. Correlations amongst regional equities have become very tight. It seems that investors are selling indiscriminately and not looking at fundamentals. We have already moved some assets into risk mitigation strategies, and those strategies are doing their job, providing an element of protection.

- **Triggers:** The overarching theme is that investors are concerned about slowing growth here and abroad due to rising interest rates and the impact of tariff clashes between the U.S. & China
- **What to watch:** More than 150 companies are announcing financial results this week and next so investors will look for fresh impetus to reverse the downward trend
- **Good news:** our trend-following strategies are doing their job, providing an element of protection during this drawdown

### Our Experts Say...

*"People always believe they can time their investments, but I've never seen success in trying to do so."*

Tom Marsico, Marsico Capital Management  
Investment Specialist: U.S. Growth Equities

*"There are always a million surprises (in the markets). Rather than predict the next surprise, it's better to build a portfolio to withstand sudden shocks."*

Peter Lampert, Mawer Investment Management  
Investment Specialist: International Growth Equities



We manage our portfolios for the long term, while taking steps to guard against market downturns. [Watch this video](#) for additional insight and perspective.



### It's the Long-Term That Matters

Region & Index	Month-to-Date*	Year-to-Date*	10-Year Return*
Canada: S&P/TSX Composite Index	-7.07	-5.80	8.01
U.S.: S&P 500	-8.16	4.76	14.40
Europe: MSCI Europe NR LCL	-7.72	-7.04	8.65
Asia: S&P Pan Asia BMI	-9.31	-11.90	9.93
Emerging Markets: MSCI EM NR LCL	-8.52	-11.13	11.08

\*Returns as of October 24, 2018 in CAD Source: MorningstarDirect

Over the long term, markets have been positive. It is important to ignore short-term noise.

## How We Protect Against Market Downturns

- In the Counsel Portfolios and IPC Private Wealth Portfolios, we trimmed our U.S. exposure in mid-Q3 as markets were near record highs
- Remained underweight in Canada where there is little catalyst for growth at this time
- Turned on our dynamic hedging of USD exposure in our Counsel and Retirement Portfolios – see table below
- Increased allocations in most portfolios to our Global Trend Strategy to enhance downside protection in the portfolios
- Global Trend is at 57% in short-term government bonds, up from 51% at the end of September
- Trend-following strategies have de-risked the new IPC Essentials Portfolios, increasing cash allocations
- Inside the Counsel Retirement Portfolios, our Defensive Global Equity strategy has de-risked by 30%

## Short Term Risk Mitigation > Dynamic Currency Hedge



We actively manage the U.S. dollar exposure in a portfolio as it is typically the most significant currency risk. The goal is to minimize losses due to currency fluctuations in your portfolio when losses are expected.

### DID YOU KNOW?

We monitor risk factors and keep our eyes on influences such as higher interest rates, key geo-political events and inflationary pressures in order to protect your capital.

Currency Hedge Position	Date	Rationale
75%	Oct 19, 2018	We increased our partial hedge to 75% in mid-October after implementing a 25% hedge earlier in the month. The Canadian dollar (CAD) began strengthening as NAFTA negotiations concluded with a new deal. We believe it is prudent now to protect investors against further appreciation by CAD. Additionally, the IPC Essentials moved to being fully hedged against USD on October 10.
50%	Oct. 9, 2018	
25%	Oct. 4, 2018	
0%	Sept. 30, 2018	

When markets are volatile, we know it can be tough to keep your emotions at bay. We're here to be your guide and help you stay focused on your goals. If you have any concerns, please give us a call.

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Sources: MorningstarDirect, bnnbloomberg.ca, marketwatch.com, bloomberg.com

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