

## Second Quarter 2018

July 2018

Markets around the world ended up flat or slightly down in the first half of 2018. The latter part of June has been particularly volatile due to potential trade wars between the United States and almost everyone – especially those countries that have been close allies of the U.S. in recent years.

In President Trump’s mind, the problem is trade deficits. The U.S. imports more goods than it exports, which leads to trade deficits with various trading partners. Trump claims that other countries’ unfair trade practices are causing these deficits. In truth, the trade deficits are a direct result of demand from U.S. citizens and businesses for cheaper foreign goods – it has nothing to do with unfair trade practices.

The reality is that based on Canadian trade in goods and services with the U.S., the U.S. has an 8-billion-dollar surplus with Canada. The new tariffs on Canadian aluminum and steel are based on the claim that these imports threaten to weaken America’s internal economy, making it a national security issue (according to their interpretation of the law). Trump is using these tariffs to give the appearance of protecting U.S. workers, but studies have shown it will in fact eliminate jobs.

While this whole situation may seem to be a tempest in a teapot, these false claims by the U.S. and the resulting tariffs imposed by the U.S. and its trading partners may indeed cause serious harm to global economies.

The foreign content in our portfolio mix has helped overall performance due to the drop in our dollar. Our balanced portfolios are up about 1% for the year so far.

Between global trade issues, ongoing NAFTA talks, NATO meetings and turmoil with Iran, North Korea and Russia, it may well be an interesting summer.

	Market	Dec 31/17	June 30/18	YTD
Canada	TSX	16209	16277	0.42%
U.S.	DOW	24719	24271	-1.81%
U.S.	S&P 500	2674	2718	1.65%
U.K.	FTSE	7688	7637	-0.66%
France	CAC	5313	5324	0.21%
Germany	DAX	12918	12306	-4.74%
Japan	NIKKEI	22765	22305	-2.02%
Canadian \$		79.59	74.13	-6.86%
Oil (US\$)		60.12	76.14	26.65%

### Alvin Law

On May 10, Maude Financial hosted motivational speaker Alvin Law at two local schools. Students and staff at both Wetaskiwin Composite High School and Pigeon Lake Regional High School had the opportunity to hear Alvin’s powerful story of overcoming obstacles.

Alvin’s sense of humour and candid delivery of his message “Attitude is Everything” speaks to all ages. We are proud to have hosted Alvin in Wetaskiwin since 2001 to have him share that message.

Visit Alvin’s website at:  
<https://alvinlaw.com/>

**“Comparison is the thief of joy.”**

- Theodore Roosevelt

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“Worry less about *the* economy and more about *your* economy.” - Daniel Crosby

## The Laws of Wealth

Our last newsletter reviewed Daniel Crosby's fifth Law of Wealth from his book *The Laws of Wealth*. Rule #5: You Are Not Special. The chapter goes into detail about how humans are flawed. This came as a complete shock as I tend to consider myself to be quite perfect!

Crosby describes two cognitive errors that contribute to poor investing behaviours. The overconfidence bias is as simple as an individual thinking that they are better than average in every aspect of their lives. The second cognitive error is the fundamental attribution error which is the tendency for individuals to claim that their successes are due to skill but that their failures are due to misfortune. Aren't we all guilty of these biases?

If we allow these cognitive errors to persist we will ignore signs of danger when investing and ultimately lose money. These biases can be overcome by putting systems in place to remove our ego from the investing equation.

### **Rule #6: Your Life Is The Best Benchmark**

The chapter begins with a description of mirror neurons, which are responsible for what Crosby calls social mimicry. Social mimicry is the unconscious imitation of behaviours. This automatic response is helpful when building relationships but once again, it is detrimental to successful investing. These neurons are responsible for keeping us focused (unconsciously) on trying to keep up with those around us (i.e. behaving as others behave), rather than taking care of our own needs.

Crosby encourages the reader to use goals-based investing to avoid getting caught up in automatic human responses such as social mimicry. Goals-based investing allows financial decisions to be made based on the individual's personal goals rather than what other people or the markets are doing. Crosby explains that "measuring performance against personal needs rather than an index has been shown to keep us invested during period of market volatility, enhance savings behaviour and help us maintain a long-term focus."

Although it makes complete sense to use your own goals as your benchmark, it is human nature to constantly compare ourselves to others. Always striving to do better than one's neighbour, friend or family member. Crosby explains a research survey that found that the participants "would prefer to make \$50,000 in a community where the average salary is \$25,000 than make \$100,000 in a community where the average salary is \$250,000."

In this chapter, Crosby shows that implementing a goals-based investing strategy is certainly an antidote to mass panic in the market. Yet, it can also be an antidote to "Keeping Up with the Joneses". It happens all too often that people believe their personal goals are having a larger house, owning a holiday trailer or having designer clothes only because these things will make them appear wealthier than others. However, if one is mindful when making a list of their personal goals they may come to realize that their true priorities in life are far from what they currently spend their money on.

Crosby ends the chapter with the question "Does this news matter to me and my situation in particular?". I would say this question does not only apply to investing but also spending. Neighbourhood News: Steve from down the street bought a brand-new holiday trailer. Ask: Does this news matter to me and my situation? Although your immediate reaction may be envy and that you must be better than Steve, it is extremely important to be mindful of your own priorities in life. I would hope that most people's true priorities in life do not revolve around appearing superior than others. Be kind to yourselves, but also be honest! Let your own life, not Steve's, be your benchmark.

***\*To review Crosby's other Laws of Wealth covered in our newsletter to date, please visit our website.***

"Nobody can go back and start a new beginning, but anyone can start today and make a new ending." - *Mona Robinson*