MAUDE FINANCIAL INC.

I deal in facts, not forecasting the future. That's crystal ball stuff. That doesn't work. - Peter Lynch

October 2018

Third Quarter 2018

As of September 30, the big news for Canada is a deal on NAFTA – now to be known as the U.S. Mexico Canada Agreement, or USMCA. All parties are saying it's a win for everyone involved, and certainly there is a benefit to having the deal completed, but as of the writing of this update, we just don't know the full extent of the impact on each country and the industries it affects. The next step will be for each of the three governments to ratify the agreement.

One huge effect has been the increase in the Canadian dollar against the U.S. dollar in just the last couple of days of the quarter. Of course, this has a negative effect in our portfolios in the short run due to the foreign content portion of those investments. Having said that, our balanced portfolios are up just over 1% since July 1, 2018.

Other markets were very mixed for the last 3 months. The U.S. was up significantly, Canada was down, Japan was up, and Europe was down (except for France).

Canada now has solid trade deals with Asia (the Trans-Pacific Partnership) Europe (the Comprehensive Economic and Trade Agreement) and now the U.S. and Mexico. This stability is key for Canadian companies that export goods to these areas, as uncertainty can limit business generally as well as any opportunity for growth.

The price of oil has increased significantly for the year but is off slightly since the end of June. This will certainly help the royalty income for the province of Alberta, but not enough to get us out of our deficit position. In order to do that, we need to collect more taxes and/or spend less money. It is interesting to note that the price we receive for oil in Oklahoma is $40 U.S. less than the world price for West Texas crude.

Update at October 10, 2018

Markets have dropped over the last 10 days with the U.S. S&P 500 slipping over 3% today alone. The reasons for today's slump are rising U.S. interest rates and uncertainty over a trade war with China. The U.S. is threatening to put tariffs on over $200 billion in Chinese goods. China is not backing down.

It seems volatility is back – we have not seen a major market correction in 9 ½ years and the reality is that we do need downturns to reset for the next leg up.

	Market	Dec 31/17	Sept 30/18	YTD
Canada	TSX	16209	16073	-0.84%
U.S.	DOW	24719	26458	7.04%
U.S.	S&P 500	2674	2914	8.98%
U.K.	FTSE	7688	7510	-2.32%
France	CAC	5313	5493	3.39%
Germany	DAX	12918	12247	-5.19%
Japan	NIKKEI	22765	24120	5.95%
Canadian $		79.59	77.50	-2.63%
Oil (US$)		60.12	73.56	22.36%

***Source: CNN Money*

Those who have knowledge don't predict - Lao Tzu

Did You Know?

Online access

You can log in to your Manulife Group Retirement account at www.manulife.ca/GRO or your Manulife Bank account at www.manulifebank.ca to view accounts and perform certain transactions. Not certain which site you need to access? Give us a call or drop us an email and we would be happy to help you out.

We encourage you to monitor your accounts online following significant transactions, as well as after any changes to accounts and banking information.

Prediction is very difficult, especially if it's about the future.
-Nils Bohr

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The Laws of Wealth

Our last newsletter reviewed Daniel Crosby's sixth Law of Wealth from his book The Laws of Wealth. Rule #6: Your Life is The Best Benchmark. This chapter explains that it is human nature to constantly compare ourselves to others. However, it can be dangerous because it opens us up to risky investing behaviours just to try to one up our family, friends and neighbours.

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." The moral of the story is focus on your own priorities and goals rather than getting caught up in the rat race that no one will ever truly win!

Rule #7: Forecasting Is For Weathermen

This chapter's topic is incredibly familiar to us at Maude Financial Inc. We are constantly asked "What do you think the markets are going to do this quarter?". Our response is always the same "They will go up, they will go down or they will stay the same." It is a terribly unsatisfying response, isn't it? Yet, in this chapter Crosby proves that accurate economic forecasting is a myth.

In the chapter, Crosby mentions a study done by Philip Tetlock of UCLA that examined 82,000 predictions over 25 years by 300 experts. The conclusion was that "expert forecasts barely edge out flipping a coin". More surprisingly, the study also found "that the more confidence an expert had, the worse his predictions tended to be and that the more famous the expert was, the worse her predictions were on average."

Crosby points out that analysts making predictions "are not paid for the accuracy of their forecasts and often have perverse incentives to mislead investors." Analysts are employed by companies that make money when certain stocks are bought. Therefore, it is in the financial best interest of the analyst to make certain predictions that would promote the purchase of said stocks.

With all this research indicating that economic forecasting is incredibly unreliable and biased, why do investors like you and I still listen? Crosby has the answer and it is alarming! Fun fact: our brains consume about 20% of all the calories we ingest. Our bodies are designed to conserve energy and slowing down our brains would be a very efficient way to do just that. It turns out that MRI studies have shown that listening to financial experts shuts off some brain functions. Scarier yet, "when participants were provided with the ideas of a financial expert, the parts of their brain associated with higher order reasoning were less active."

Part of our job is to keep an eye on the markets, current events, and (some of) the chatter of economic analysts. However, the reason for this is *not* so that we can try to predict the economic future of a region, industry or fund. We use this information to help us and our clients think about and plan for volatility, market corrections and staying the course. Financial analysts all have their angle and at the end of the day, any statement about the future is really speculation, no matter how well-informed that expert may be.

The tried and true basics are the key to achieving financial success. Automate your regular long-term savings deposits, have a trusted professional who will prevent you from panicking when things get rough and maintain a long-term focus on your goals. Simple, but not easy.

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

Forecasts usually tell us more of the forecaster than of the forecast - Warren Buffet