Huggan White Wealth Management

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PIMG Portfolio Management Report

Fourth Quarter 2019

The Bull Marches On….

Each year as the calendar rolls over we are faced with another foray of predictions and projections of what the next 12 months has to offer. Perhaps it's a reflection of an industry that is focused on relating performance to a specific 12 month evaluation period (calendar year), which in most cases is totally irrelevant. Think about it, when was the last time you looked back on past performance and said wow 2012 was a great year for performance, yet 2016 was tough?! What is far more relevant and important in our opinion, is the ability for clients to meet or exceed their financial objectives and ensure that their capital is appropriately managed based on their specific circumstance. The true value of the advisor/client relationship is when this becomes the focal point of the conversation; not some benchmark, third party manager performance metric or popular index return.

That being said, 2019 was a very good year for investors. The first part of the year started as a recovery from the weakness exhibited in the fall of 2018 when stock prices fell 16 percent in the last seven weeks of that year. That initial bounce was followed by a strong rally that has marked the resumption of the equity bull market that I have been referencing for the better part of 10 years. What last year accomplished in terms of performance was twofold: it made equity owners happy and it illustrated the importance of being careful when considering and reacting to short-term results.

In the face of trade wars and domestic economic strife in China, Alibaba Group and Apple were among some of our top-performing holdings last year. The online merchandising, banking and entertainment behemoth that was Jack Ma's invention, Alibaba beat growth and earnings expectations in successive quarters moving strongly against the tide of negative political news. Apple, with its enormous manufacturing exposure to China, maintained its smartphone dominance and stayed out front with other companies including Microsoft in the rapid ongoing expansion of cloud computing. Another name that would seem to be a prime trade war victim that instead became a top performer was Kansas City Southern, a railway that derives the majority of its revenue by moving goods to and from Mexico from southern US hubs. When most investors were focused on the uncertainty of trade wars, USMCA included, we instead preferred to focus on the fundamentals of the businesses you own, like KSU, and allow these inputs to drive our investment decisions. Emotions and personal biases were removed; which for many can be challenging given the dynamic backdrop.

Westjet Airlines, with its new owner Onex firmly in control, topped the list of Canadian share price performers followed closely by Gibson Energy and Brookfield Asset Management. Again, companies with challenging sector exposure (airlines have tight margins, Gibson did well in the troubled energy sector and Brookfield keeps winning in real estate) defied sentiment and rose to be leaders throughout the year.

Equity prices, a traditionally trusted barometer of future economic activity, have been sending bullish signals on the future of the global economy. With the recent introduction of further instability in the Middle East, the list of threats still includes Brexit, negative bond yields, record high government debt levels, political and some democratic system instability, the climate change crisis, trade wars and the many lingering effects of the now twelve-year-old global financial crisis. Stock prices will tend to confound observers by seeming to behave irrationally. What the price moves are telling us is that underneath the surface the economies of the world's developed markets have been slowly getting better. And as our good friend Jeff Saut often reminds us, "it's not about the absolute certainty of good or bad, it's about are things getting better or are things getting worse?". Clearly, things are getting better.

Another barometer of capital markets that we closely track is investor sentiment and fund flows. As noted above, 2019 was a strong year for equity markets and in fact new highs were reached on a regular basis. Despite this though, fund flows were actually NET negative once again for the calendar year (see chart below). In other words, there was more money taken out of stocks than was put into stocks in 2019! Moreover, fund flows were NET positive for fixed income and money market funds. To us, this is confirmation that investor positioning remains very defensive and their overall trust/belief in equity markets remains skeptical. As the old saying goes, bull markets don't die of old age, they die of excessiveness – excessive spending/fund flows, overleverage, overconfidence and excessive valuations. Based on our work, we are not seeing any warning signs regarding the latter.

2020 has arrived with already another crisis; the escalation of military activity in the volatile Middle East. Although these are potentially disturbing global events, conflicts normally have short-term effects on investment assets. As portfolio managers we cannot trade people's life savings and hard earned capital into the fear generated by news headlines. We always stick to the facts that govern earnings growth, anticipated dividend and interest income and the potential risk posed by exposure to any particular asset at any given time.

The calendar page has flipped but the headlines remain the same for the most part. We are focused on the many opportunities emerging from the rapid changes being imposed by economic conditions worldwide. With interest rates staying low, central banks leaning toward more accommodation (lower rates not higher), inflation in low single digits and employment rates in Canada and the US still near all-time highs, the slow but positive growth scenario that has dominated our core thesis for a decade continues to guide your investment strategies.

As the title of this commentary states, The Bull Marches On…

As always, please do not hesitate to reach out with any questions or comments.

Regards,

Craig White

Net Flows into Mutual Funds + ETFs ($BN)						
	Domestic Equity		International Equity			
Year	MF	ETF	MF	ETF	Bond	Money Mkt
2009	($27.6)	$30.9	$29.6	$39.6	$417.2	($539.1)
2010	($81.1)	$46.7	$56.7	$41.5	$262.0	($525.1)
2011	($133.3)	$47.3	$4.1	$24.3	$163.7	($124.1)
2012	($159.1)	$80.9	$6.4	$51.9	$358.5	($0.2)
2013	$18.1	$104.1	$141.4	$62.8	($59.0)	$15.0
2014	($60.2)	$141.5	$85.4	$46.6	$94.5	$6.2
2015	($170.8)	$65.4	$93.9	$109.7	$29.4	$21.5
2016	($235.4)	$167.6	($24.5)	$20.1	$190.1	($30.3)
2017	($236.0)	$186.0	$76.7	$159.8	$381.1	$106.9
2018	($253.2)	$139.1	($7.3)	$70.3	$103.0	$158.8
2019 YTD	($250.9)	$109.8	($50.9)	$14.2	$411.6	$488.9
TOTAL	($1,589.4)	$1,119.2	$411.5	$640.8	$2,352.1	($421.5)

Source: Strategas

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