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THE CM GROUP QUARTERLY

As has been the case for the last few quarters (or three years), there has been a lot of geopolitical news that has dominated the headlines. We have also seen a constant political rhetoric of new tariffs, trade wars and numerous other threats that have caused major short term swings in global markets. This noise can become a distraction for long term investors. As the news becomes more repetitive, it can lead reasonable people to start moving away from disciplined long term strategies.

We have provided a few articles for your summer reading list that we hope reinforce the idea of staying invested and being diversified. Falling into the fear trap that is laid out by watching 24 hour business news can be dangerous for even the most reasonable person.

So, as always, it is best to tune out the noise and just go and enjoy your summer. There are better ways to spend these nice days then being inundated with news that you have no control over.

Please enjoy these articles and also here is a reminder about the impact of the 24 news cycle.

http://www.markets-work.com/tuning-out-the-noise/

Enjoy.

"Predicting rain doesn't count. Building arks does"

-Warren Buffett

Six good reasons to stay invested Page 2

Global investing- helping you make informed investing decisions Page 7

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RESILIENCE

Six Good Reasons to stay invested

Financial markets often go through phases of relative calm followed by abrupt and often unanticipated spikes in volatility. As we saw in 2018, market volatility can be sparked by a variety of issues: geopolitical events, corporate news, technical factors and others.

It is important for investors to understand that volatility is normal and beyond our control. However, we can control how we react.

Generally, the best reaction is no reaction at all. Pulling out of the market when it is volatile can lock in losses and could lead to missing out on any subsequent rally. Here are six good reasons why staying invested for the long term is almost always the best way to navigate market turmoil:

Market timing is difficult.
Ask the most experienced investors, and many will tell you that drastic allocation shifts in an effort to time the ups and downs of the market is immensely challenging. This applies to stock markets as well as other markets, such as oil. For example, when the price of crude oil breached US$100 a barrel in early 2008 after several years of steadily climbing, Goldman Sachs predicted it could move beyond US$200 a barrel in the short term given existing supply/demand characteristics. Indeed, oil did near US$150 a barrel by mid-2008. But at the end of that year Goldman Sachs slashed its forecast to just US$45 a barrel. Similarly, early in 2015 when oil slumped to US$40 a barrel, Citigroup predicted it could fall as low as US$20 a barrel in the near term. Crude oil is now trading at around US$50 a barrel, down from around US$75 a barrel in June 2018.

1936
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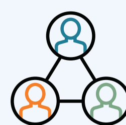


2,600+
Research meetings held in past 12 months with money managers around the world

C$356.7B
Assets under management

425+
Assets under advice

20+
Offices worldwide

Principal Offices: Seattle, Toronto, New York, London, Tokyo, Paris, Singapore, Sydney, Auckland

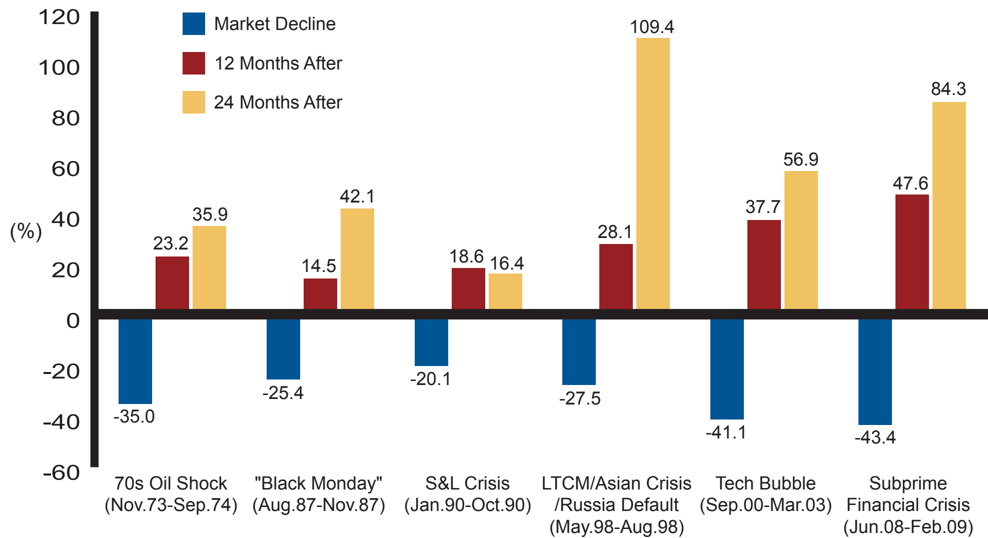
As of December 31, 2018

2. Selling during a correction is betting against the odds.

History suggests that periods of sharp declines have often been followed by periods of some of the most favourable returns. Figures 1 and 2 show the strong returns of Canadian and U.S. markets during the 12 – 24 month periods following some of the sharpest declines of the past 40+ years. The strong historical tendency of markets to rebound provides some evidence that fear-induced dramatic alterations to asset allocation are unnecessary for investors who simply stay the course.

Figure 1: Canadian equities have bounced back from market shocks

S&P/TSX Composite Index returns after steep market declines

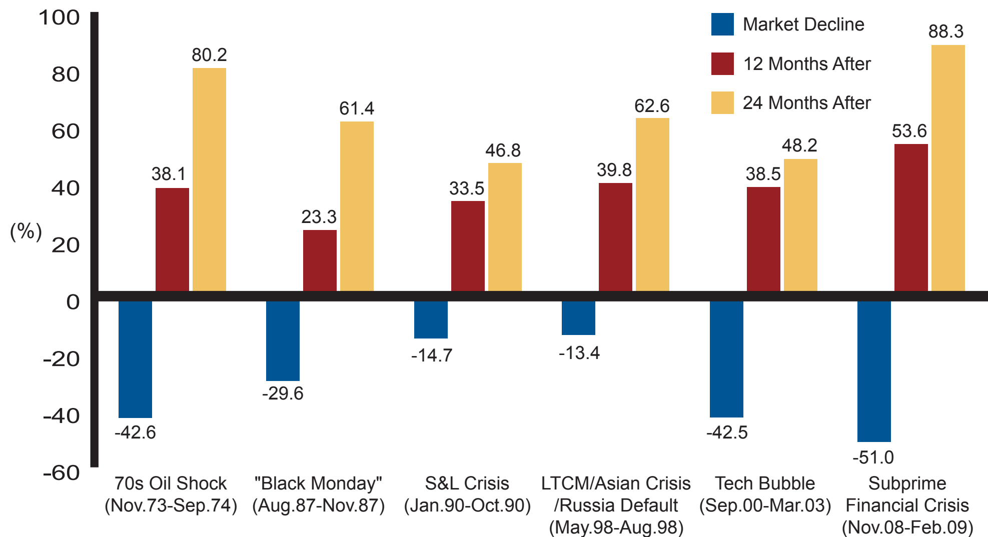


Source: BNY Mellon, Russell Investments. In CAD

Indexes are unmanaged and cannot be invested in directly. Past performance is not indicative of future results.

Figure 2: U.S. equities have bounced back from market shocks

S&P 500 Index returns after steep market declines



Source: BNY Mellon, Russell Investments. In USD

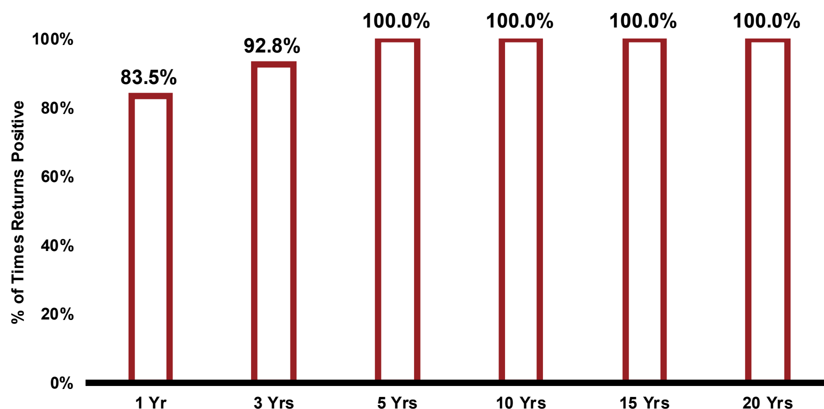
Indexes are unmanaged and cannot be invested in directly. Past performance is not indicative of future results.

3. The likelihood of negative long-term returns for a balanced portfolio has historically been very low.

Stocks have historically outperformed bonds when based on average rolling returns over one, three, five, 10 and 20 years. Just as compelling is the traditional ability of a balanced portfolio to produce positive returns. Figure 3 shows that a global balanced portfolio of stocks and bonds has not produced a negative return over any five-year rolling period since 1970. The bottom line is that, although there are no guarantees that the future will resemble the past, history tends to favour long-term investors.

Figure 3: Diversified portfolio has done well in long term

% of time diversified 60/40 mix produced positive returns
(Based on rolling returns, January 1970 - December 2018)



Source: eVestment Alliance, LLC, Russell Investments. Based on respective rolling period. Diversified Portfolio contains 20% S&P/TSX Composite Index (Canadian equity), 20% S&P 500 Index (U.S. Equity), 20% MSCI EAFE Index (International Equity) and 40% FTSE TMS Canada Universe Bond Index (Canadian Fixed Income). In CAD. Indexes are unmanaged and cannot be invested in directly, Past performance is not indicative of future results.

4. Volatility breeds opportunities.

While economic uncertainty will always be a cause for investor anxiety, the resulting market volatility has historically offered active managers in equities and bonds the potential to better position portfolios for the longer term. Markets sometimes get over-exuberant and prices become excessive, but the opposite is also true. Short-term periods of crisis can push prices artificially low, creating excellent opportunities to buy. Russell Investments portfolio managers as well as the independent sub-advisers we hire can take advantage of temporary mispricing in the market. By doing so, it's possible to plant the seeds of potential long-term profits during periods of uncertainty.

5. Market volatility provides an opportunity to rebalance.

If a crisis creates an opportunity, then portfolio rebalancing is perhaps the best way to take advantage of that opportunity. When comparing assets within a portfolio, rebalancing means selling assets that have gained in value and buying assets that have fallen in value in order to maintain the overall strategic asset allocation of a diversified portfolio. During a market correction, this should result in buying more assets that have decreased in value – an essential part of the process of buying low and selling high. As Figure 4 highlights, an asset allocation that is systematically rebalanced has produced a modest return advantage, but more importantly, has managed risk over time. Systematic portfolio rebalancing is a crucial aspect of Russell Investments' portfolio approach. In essence, it provides investors with increased exposure to opportunities that are likely to pay off in the long run.

Figure 4: Rebalancing vs. Buy & Hold

Benefits of rebalancing

Source: BNY Mellon, Russell Investments. Analysis based on quarterly data from 12/31/1979 - 12/31/2018. Asset allocation: 20% S&P/TSX Composite Index, 20% S&P 500 Index, 20% MSCI EAFE Index, and 40% FTSE/TMX Canada Universe Bond Index. Risk is defined as standard deviation. Indexes are unmanaged and cannot be invested in directly. Past performance is not indicative of future results. Hypothetical simulated data is shown for illustrative purposes only and is not intended to represent any specific investments. Systematic rebalancing is a process where one buys or sells assets in their portfolio based on a preset condition to realign the asset allocation with the desired strategic weights.

6. Diversification can be most effective when markets are uncertain.

Over time, financial markets deal with numerous crises. To name a few over the last two decades, there was the technology bubble, a credit bubble, the U.S. subprime debt crisis, the sovereign debt crisis in the Eurozone, and the recent volatility in oil prices. One reason to hold a multi-asset portfolio is in part to spread the risk budget across multiple asset classes in order to protect against market volatility. Having a robust strategic asset allocation with regular rebalancing can potentially enhance returns, but more importantly, manage volatility. However, from a multi-asset investors' perspective, longer-term returns have been reasonable. For example, the hypothetical globally diversified asset allocation in Table 1 shows solid returns over the long term.

Table 1: Benefits of Diversification – Annualized Returns

MARKET/ASSET CLASS	ONE YEAR ENDING DECEMBER 31, 2018	FIVE YEARS ENDING DECEMBER 31, 2018	15 YEARS ENDING DECEMBER 31, 2018
S&P/TSX Composite Index	-8.9%	4.1%	6.6%
S&P 500 Index	4.2%	14.1%	8.2%
MSCI EAFE	-5.6%	6.2%	5.6%
FTSE TMX Bond Index	1.4%	3.5%	4.6%
Diversified Portfolio	-1.4%	6.4%	6.2%

Note: Diversified Portfolio contains: 20% S&P/TSX Composite Index, 20% S&P 500 Index, 20% MSCI EAFE Index and 40% FTSE TMX Canada Universe Bond Index. In CAD. Based on respective rolling period. Indexes are unmanaged and cannot be invested in directly. Past performance is not indicative of future results.

Where to go from here?

Recent oil price volatility is a stark reminder of how trends can shift. For example, despite the strong gains in Canadian real estate prices in key cities, it is likely wiser to think of a house as a place to live, rather than as a source of extravagant investment returns. Federal and Provincial initiatives undertaken since 2017 to cool the acceleration of the housing market have had effect, as house price gains in Toronto and Vancouver slowed in the aftermath of housing policy changes. And, we should not lose historical perspective: As we saw in Vancouver in 1981, Toronto in 1989 and Calgary in 2015, house prices can move in the opposite direction. But when it comes to our core investments in stocks and bonds, the most prudent course of action remains a steadfast devotion to patient, long-term investing.

- Avoid the temptation to overreact to market movements.
- Reduce risk through proper geographic and asset class diversification.
- Consider multi-asset investing for a more holistic approach geared towards return enhancement but with a natural focus on downside risks.

To find out more, please ask your advisor or contact us at **1-888-509-1792** or visit us at **russellinvestments.com/ca**

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Diversification does not assure a profit and does not protect against loss in declining markets.

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INVESTOR

Global Investing

Helping you make informed investing decisions.

We are most comfortable with what we know. The same applies to investing.

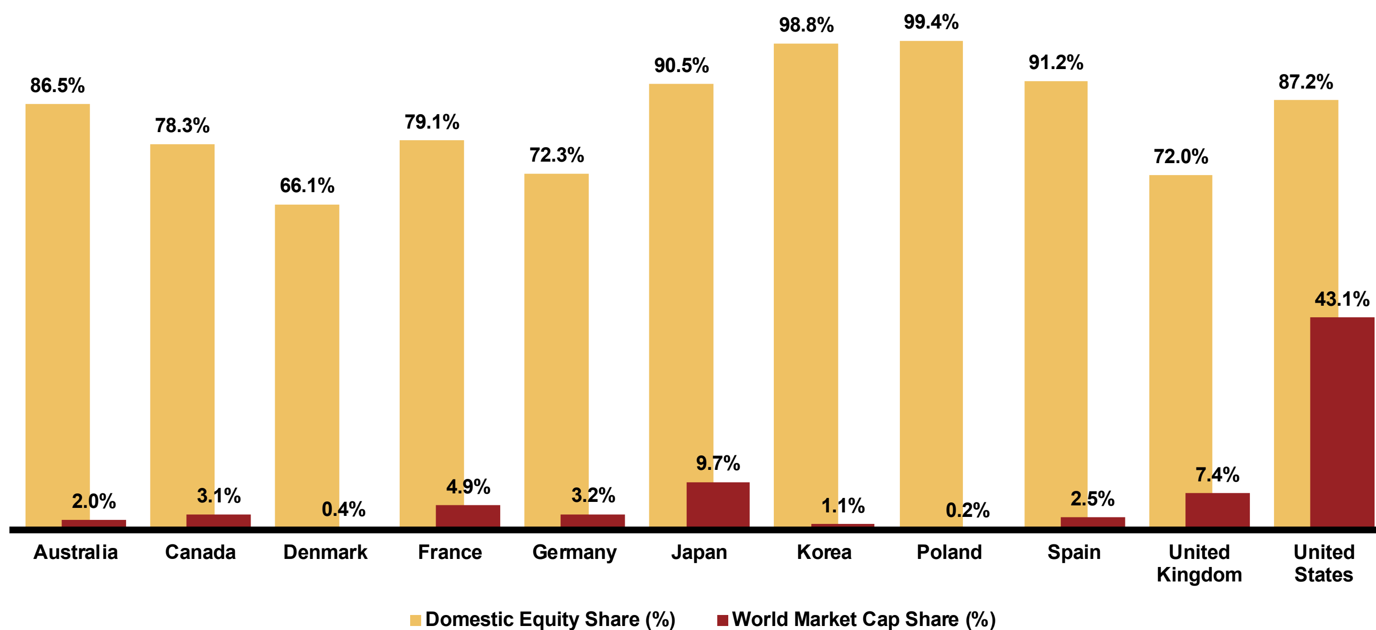
If you are like most investors, the bulk of your assets are concentrated in the country where you live. You may own real estate and other physical assets such as cars or boats, and most likely have most of your investment portfolio in domestic equities or bonds. This is known as "home-country bias," and it is a common trait of investors globally.[1]

But having a "home-country bias" in your investments is like placing all your eggs in one basket. You may be missing out on growth opportunities not available in your own country and some sectors may be overrepresented in your portfolio: For example, Canada's key S&P/TSX Composite Index is dominated by bank and resource stocks and has little in the way of technology names. Whether you are over-concentrated domestically or within specific sectors, you may put your portfolio at risk of a major drawdown.

Also, by remaining within your borders, there is a strong correlation between your portfolio and other assets that make up your financial wealth – such as income from your job or real estate holdings – all of which would be vulnerable to the same factors that affect your country's economy.

Since the opportunity set of investable assets has expanded as the world economy has globalized, your portfolio should also diversify beyond your borders.

Home-country bias / Market weight of country's stock market compared to world market capitalization share of domestic equity in the country's equity portfolio



Source: From Figure 8.3 of "Familiarity Breeds Investment" by J.R. Nofsinger, 2014, The Psychology of Investing, p. 89, Copyright 2014 by Taylor & Francis.

1 "Familiarity Breeds Investment" by J.R. Nofsinger, 2014, The Psychology of Investing

Why go global?

There’s no denying that we are all more closely connected now than ever before. Information flows freely across borders. So does commerce: The sum of exports and imports across nations now amounts to more than 50% of the value of total global output.[2]

More importantly, economic growth is now occurring faster outside of the U.S., Canada, and other developed countries. The International Monetary Fund forecasts that emerging and developing economies (Asia, Latin America, Africa, the Middle East) will grow by around 4.4%–4.9% per year between now and 2024—with some of those countries experiencing growth rates of more than 6% per year.[3] Canada’s economic growth, in contrast, is expected to slow from 1.8% in 2018 to 1.6% in 2024.[4]

What's more, emerging markets stocks today have a combined market capitalization of US$1.75 trillion—about equal to the total U.S. market capitalization two decades ago.[5] Canada represents 3% of world stock market capitalization, but emerging markets now represent 11.5% of world stock market capitalization[6] and are home to 86% of the world's population.[7] These are huge markets that you will miss out on by having too narrow a focus in your portfolio.

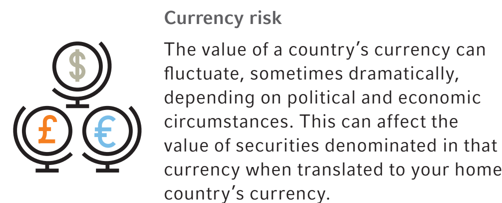
The reality is that your portfolio is already likely to have global exposure, even if you have a strong home-country bias. Some companies you may think of as Canadian, are headquartered elsewhere. Molson Canadian beer is part of Molson Coors, with its head office in Denver, Colorado. Labatt Brewing Company is now part of a Belgian multinational.

Even those companies headquartered in Canada may have a large percentage of their assets in other countries, and may obtain a large percentage of their profits elsewhere. Consider Lululemon Athletica Inc. The Vancouver-based athletic wear company operates more stores in the U.S. (270) than it does in in Canada (54), and it is expanding rapidly in Asia and Europe.[8] Communications-giant BlackBerry, headquartered in Waterloo, Ont., obtains 30% of its revenue outside North America.[9]

Not just about geography

Investing globally is no longer just about ensuring you have a diverse mix of geographies in your portfolio. True diversification also encompasses a range of asset classes, which are by nature global: e.g. high yield bonds, small cap equity, unconstrained fixed income, listed real estate and infrastructure. Most investment funds focused on these specific asset classes search for the best opportunities around the world, many designed to match your risk tolerance. As the saying goes: *The world is your oyster.*

Remember that investing has its rewards, but also its risks. When investing globally, there are several key risks to bear in mind:

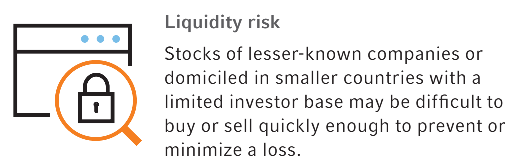


Currency risk

The value of a country’s currency can fluctuate, sometimes dramatically, depending on political and economic circumstances. This can affect the value of securities denominated in that currency when translated to your home country’s currency.

Foreign-company risk

Companies domiciled in other countries are subject to the regulatory regime, business cycle and political environment of their home country. Certain foreign-based companies may operate with vastly different legal, accounting, environmental, corporate governance and safety regulations than in Canada and are therefore potentially vulnerable to greater risks.



Liquidity risk

Stocks of lesser-known companies or domiciled in smaller countries with a limited investor base may be difficult to buy or sell quickly enough to prevent or minimize a loss.

These risks can be mitigated through the use of various strategies such as currency hedging, diversification among globally focused funds and allocation strategies by experienced investment managers.

2 Source: www.ourworldindata.org/trade-and-globalization
3 Source: From Table A2 in Statistical Appendix, World Economic Outlook: Growth Slowdown, Precarious Recovery, April 2019 https://www.imf.org
4 https://www.imf.org/en/Countries/CAN
5 https://www.capitalgroup.com/pcs/latest-perspectives/global-investing.html
6 Based on weighs in the MSCI All-World Index
7 Source: IMF DataMapper, World Economic Outlook (April 2019) People. www.imf.org
8 www.lululemon.com
9 www.blackberry.com Q4 FY19 earnings report

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Please remember that all investments carry some level of risk, including the potential loss of principal invested. They do not typically grow at an even rate of return and may experience negative growth.

As with any type of portfolio structuring, attempting to reduce risk and increase return could, at certain times, unintentionally reduce returns. Rebalancing your portfolio may create tax consequences on the taxable portion.

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