

Trust. Experience. Integrity.



December 2019 Quarterly Newsletter

Hello,

The decade is coming to an end which means it's a perfect opportunity to not only start thinking of your 2020 resolutions, but also your long term resolutions as we enter a new chapter. If your new year goals involve improving your personal finance or simply revisiting your portfolio or financial plans, [contact](#) your Portfolio Manager today to book an appointment.

As many of you know, this year the RaeLipskie Team is excited to be celebrating our 30th anniversary. We are very proud of this milestone and we look forward to sharing a look back at our wonderful journey over the past three decades in the coming months.

Don't forget to follow us on [Facebook](#), [Twitter](#), and [LinkedIn](#) to stay up to date with the latest financial trends and The RaeLipskie Partnership news.

Sincerely,

The RaeLipskie Partnership Team



# *Save the Date*

## *30<sup>th</sup> Anniversary Celebration*



*Annual Client Appreciation Reception*  
*Thursday, December 12, 2019*

## **Random Gleanings**

**Want to buy a house?** If so, the coming decade or two might be a good time as the huge baby-boom demographic increasingly moves into selling mode. In the U.S. it is estimated that seniors will offload 21 million homes over the next 18 years, a big supply surge relative to expected demand. Caveat venditor.

The real estate playground of the **billionaire demographic** is already suffering. In the \$100 million-plus market, asking prices that sound outlandish often end up in closed deals that

are still unfathomable but at least at a discount. A good example is the Daryl Katz \$120 million purchase we referenced in September, a price far below the original \$200 million asked. Shed a tear for the billionaires.

If some property-laden moguls are feeling a little miserable, it's not because of the **Misery Index**. This index combines the inflation rate with the unemployment rate to measure economic wellbeing and currently sits at historical lows (low is good) going back to the early 1960's. Some readers will recall the other extreme in 1980-81 when both inflation and unemployment were in double digits, not a fun time. Those were the good old days?

There isn't really a way to determine the **impact of this index**, but it is safe to say it helped Justin Trudeau limit Liberal election losses and will most likely be a supporting factor in Donald Trump's re-election bid. Remember Carville's famous "The economy, stupid" rationale for Bill Clinton's re-election? Mr. Trump's possible outcomes are very binary: impeach the bum / re-elect the President.

All of this doesn't mean people won't be grouchy, especially when it comes to politics. Our election surfaced many **divisions** across the country and partisan views seem even more pronounced in the U.S. Consumer research shows the divide has reached branding territory as Democrats are inclined to wear Levi jeans while Republicans prefer Wranglers. Are you red or blue in your choice of attire?

Speaking of hate, one thing office workers really dislike is **jargon**. According to presumably obscure research, the most abused term is 'touch base' followed closely by 'no brainer'. If you thought that touching base would be a no brainer, sounds like you better think again.

Many football fans are irritated these days because of all the yellow **penalty flags** that are spoiling their favourite Sunday pastime. The NFL is setting a record this year with an average of 15 penalties per game which slow the action and frustrate fans, especially with so many contested through video review. Still, though, the most popular sport by far.

Another significant segment of the population is bummed out that there appear to be fewer **UFO's** around. While surveys generally suggest that about one-third of us believe in UFO's, reported sightings are on the decline. The National UFO Reporting Center indicates that sightings in 2018 were less than half the number five years ago. ET has gone home.

On the other hand, both consumer lenders and borrowers are happier lately as **FICO scores** are on the rise. FICO uses predictive analytics in various areas, prominently including individuals' credit scores that are used by credit agencies such as Equifax. Credit scores have risen steadily in the U.S. following the financial crisis in 2008 and are now

comfortably above the long-term average, an important support for consumer health. In the economy, the consumer is Queen.

**On this day in history...** Do you know what time it is? This was a more important question before the advent of all sorts of electronic gadgetry that keep perfect time for us. Back in those days of yore, the go-to time source was CBC Radio's time signal, which remains today after celebrating its 80<sup>th</sup> anniversary in October. "The beginning of the long dash following ten seconds of silence marks one o'clock, Eastern Standard Time."



## Monthly Market Data & Commentary

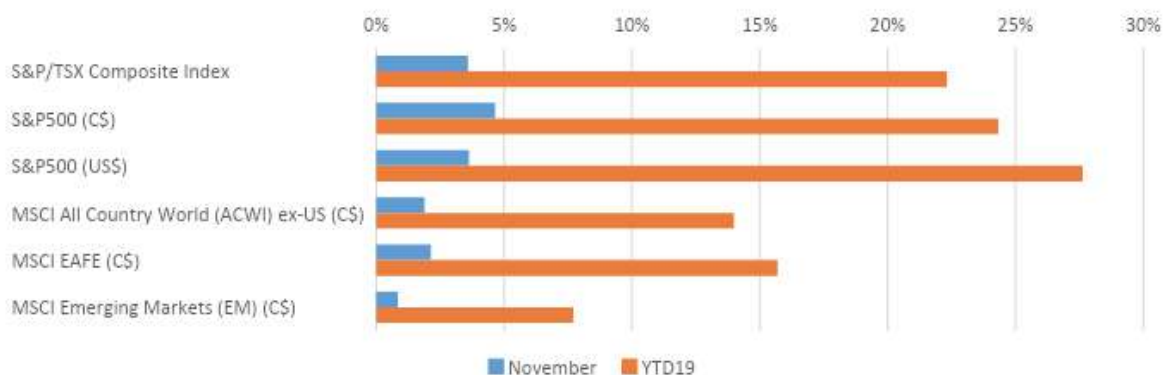
**Well, that was fun.**

Equities continued to rally in November – a relatively consistent feature of markets in 2019, despite the multitude of geopolitical risks that investors have faced this year and relatively modest progress from most global economies. The negotiations between the US and China on a 'phase one' trade deal are yet to arrive at a conclusion, but there has at least been an absence of any further escalation in tariffs. Changed perceptions on that front, of course, are only a "tweet" away. However, hopes of a deal appear to have buoyed sentiment. The TSX Composite, led by gains in the Energy, Consumer and Info Tech sectors booked a noteworthy gain of 3.6% in the month, exactly matching the advance in the S&P500 Index in the US. Year-to-date total returns in Canada and the US accrued to 22.3% and 24.3%, respectively, in C\$ terms, on course for some of the best calendar year gains since 2013. Definitely fun!

Markets have been buoyed by the potential for progress on a trade deal, while central banks have largely been on the sidelines in November. Market pricing seems to be reflecting optimism that recession risks have receded and growth will reaccelerate.. The good news is that manufacturing appears to be stabilizing, and continued central bank support should help. The impact of lower rates has been particularly evident in the real estate markets where activity has rebounded nicely. Equity valuations have now risen to levels close to their long-run averages, and higher in the US, while credit spreads remain low.

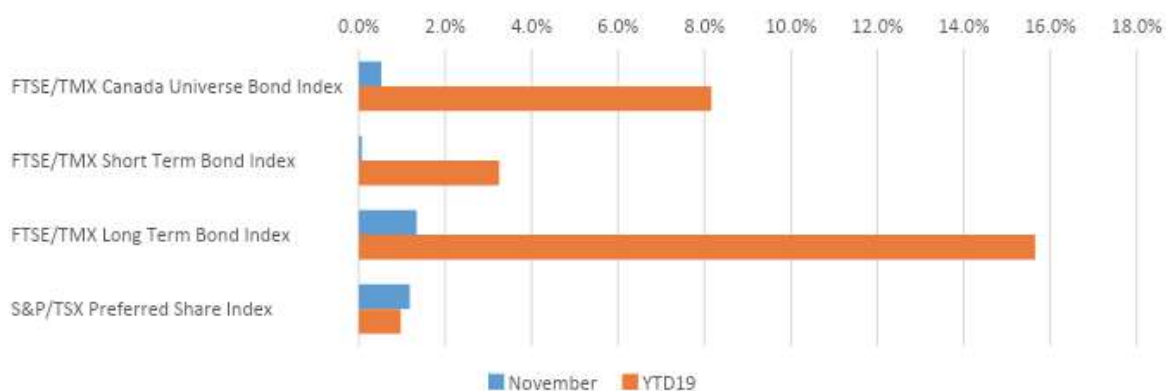
<b>Equities:</b>	<b>November</b>	<b>YTD19</b>
S&P/TSX Composite Index	3.6%	22.3%
S&P500 (C\$)	4.7%	24.3%
S&P500 (US\$)	3.6%	27.6%
MSCI All Country World (ACWI) ex-US (C\$)	1.9%	14.0%
MSCI EAFE (C\$)	2.1%	15.7%
MSCI Emerging Markets (EM) (C\$)	0.9%	7.7%

### Equities

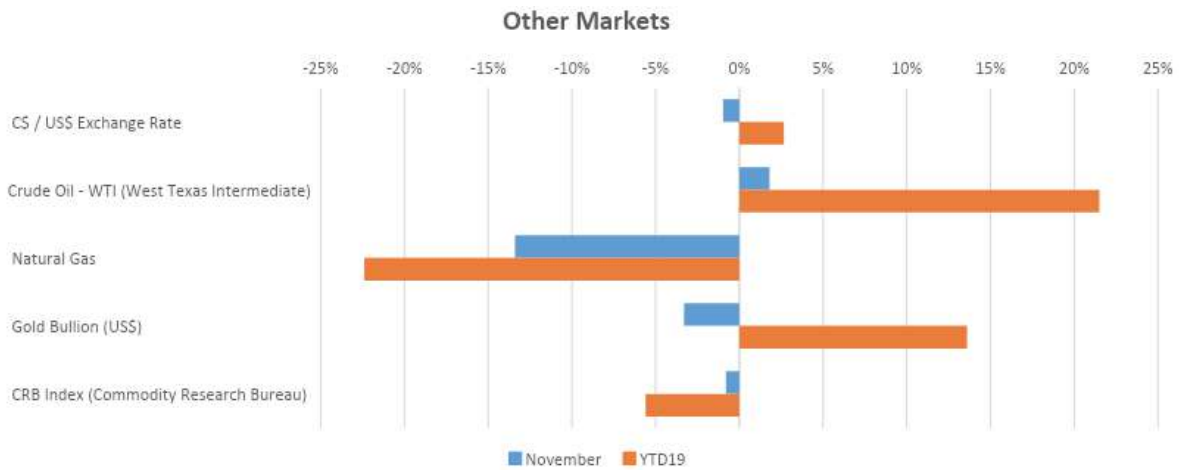


<b>Fixed Income:</b>	<b>November</b>	<b>YTD19</b>
FTSE/TMX Canada Universe Bond Index	0.5%	8.2%
FTSE/TMX Short Term Bond Index	0.1%	3.3%
FTSE/TMX Long Term Bond Index	1.3%	15.7%
S&P/TSX Preferred Share Index	1.2%	1.0%

### Fixed Income



<b>Other Markets:</b>	<b>November</b>	<b>YTD19</b>
C\$ / US\$ Exchange Rate	-1.0%	2.7%
Crude Oil - WTI (West Texas Intermediate)	1.8%	21.5%
Natural Gas	-13.4%	-22.4%
Gold Bullion (US\$)	-3.3%	13.6%
CRB Index (Commodity Research Bureau)	-0.8%	-5.6%



## THE LEARNING CORNER

### How can news distort our thinking?

Away back in 1952, **The Power of Positive Thinking** was published and quickly became a best seller with its advice on the life-quality benefits of positivity and optimistic thoughts. The book remains popular today. We have often commented on the negativity emanating from the media which seem to follow the ‘bad news sells’ mantra. In that light, we are including in this corner excerpts from an article in Psychology Today by Dr. Austin Perlmutter, author of a new book, **Brain Wash**.

*Watch, read or listen to the news and you’re likely to come away believing that the world is rapidly descending into disaster and chaos. Negative news ... interfaces with our cognitive biases, keeping our focus on everything that’s going wrong while blinding us to all the good things around us. Three specific cognitive biases are activated by negative news to keep us in a state of negativity:*

1. **Negativity bias means that we can’t turn negative news off.** It refers to the fact that humans focus on negative events, information, or emotions more than their positive counterparts.
2. **Availability bias means that after we see negativity, we overestimate its significance.** It predisposes our brains to perseverate on the bad things going on in the world.
3. **Confirmation bias means that we will find evidence to support negativity.** We are more likely to seek out information that supports our idea of the world as a terrible place.

With this triple whammy of negativity messing with our minds, maybe sometimes we should just turn off the TV.



## CHARTING OUR TIMES

### Be Careful What You Wish For

With the world becoming an increasingly insular place, and trade disputes making adversaries of former partners, the importance of foreign operations to U.S. corporation's profit profile is worth noting.

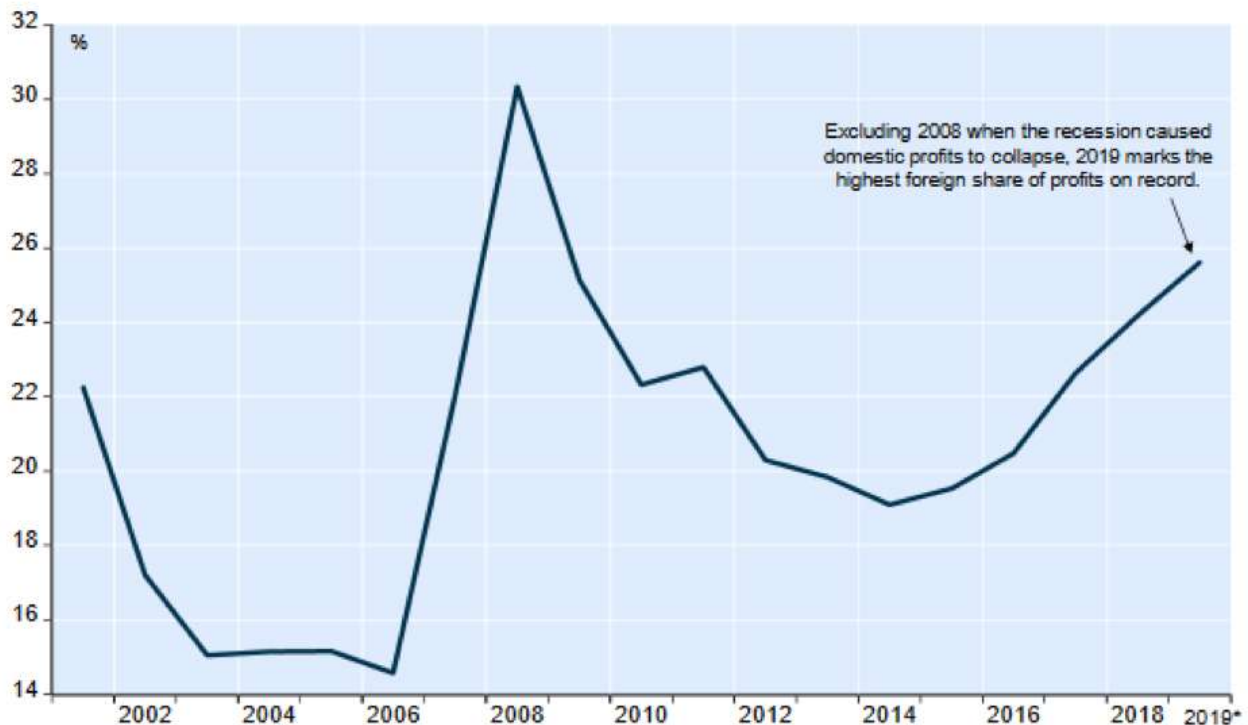
The first estimate of Q3 U.S. corporate profits showed overall growth of a meagre 0.2% year-over-year. Gains in the "Rest Of the World" (ROW) component at +6.5% were sufficient to offset declines of -3.1% among domestic industries. As a result of this development, the ROW share of corporate profits is on track to reach almost 26% this year. Excluding the extraordinary event of 2008 when domestic profits collapsed amid the Great



Recession, this will be the highest share of corporate profits generated abroad ever recorded. The White House would do well to note this increased reliance of U.S. corporations on foreign operations because any further escalation of its trade wars could further jeopardize overall corporate profits and, in turn, hamper business investment and employment creation in 2020.

### U.S.: Corporate profits increasingly reliant on foreign operations

Share of corporate profits generated abroad



Excluding 2008 when the recession caused domestic profits to collapse, 2019 marks the highest foreign share of profits on record.

\* Based on first three quarters of 2019  
NBF Economics and Strategy (data via Bureau of Economic Analysis)

## THE BIG PICTURE

Early last month, financial headlines “celebrated” the 90<sup>th</sup> anniversary of Black Thursday during the crash of 1929. While some extrapolated the story to muse about the risks inherent in markets today and how the present market compares to that of almost a century ago, we think the better lesson to draw from this anniversary is the demonstration of stocks’ resiliency and why they should represent a core component of a growth investor’s financial plan.

To be sure, 1929 was bad. Like an 83.7% drop bad. Bad enough that stocks needed more than 15 years to reach their pre-1929 levels. More if you exclude dividends. However, stocks have endured plenty of other bear markets since then and none were anywhere near



as bad.

Moreover, focusing on bear markets overlooks the sheer power of bull markets. If you've done any casual business reading, passed through a business channel while watching television, or perhaps had a meeting with your Investment Counselor, you've probably heard that stocks' long-term average return is about 10% annually – a number that includes bear markets. However, bull markets also tend to last longer (average duration of 57 months compared to 16 months for the bears), and the average bull market in the postwar era has experienced a cumulative return of 149% compared to bear markets' 34%.

The uncomfortable part is that you must remain invested to generate these types of returns: easy in theory, difficult in practice. With headlines consistently lamenting slowing economic growth, political risk, an overwhelming amount of debt, etc, this can easily stir worries over whether the market's days are numbered. However, investing is about maintaining a belief in people. A belief that when people are driven by a profit motive and operate in a free market, they can overcome any and all obstacles. Another bear market will certainly assert itself sometime in the future, but history suggests that brighter days lie beyond.



## Giving Back at the RaeLipskie Partnership



In 2008, the Rae & Lipskie Investment Counsel rebranded as the RaeLipskie Partnership to reinforce that we are your partners, both within our organization and in our community. We have done our best to infuse our values - trust, experience and integrity - in all we do, including our charitable involvements. Over the past three decades, the RaeLipskie Partnership has supported many community organizations in everything from education to mental health, healthcare, arts, environment and youth programs.

Read the full blog [here](#).

## In The News



Having multiple retirement savings accounts can make it tough to monitor the mix and returns on all of your investments, and it may be costing you more than you realize. MoneySense shares how to bring them all together [here](#).



Forbes shares how to make your digital life part of your estate plan [here](#).

## Around the Office



Honningsvåg, Nordkapp (Norway)

Not sure what's in the water around here that our staff loves the cold when it's not winter:  
we've seen Taylor Echlin plying the coast of Sweden & Norway in late October; Dave Paleczny taking the plunge off Greenland and trekking across Arctic tundra in September;  
and Leslie Stallard circumnavigating Iceland in July.

On the other hand, Becky Miller had the good sense in October to visit someplace warm  
and beautiful—Ireland:





Glendalough (County Wicklow)

## In Our Community

[The Food Bank of Waterloo Region](#): This year, instead of struggling to find the perfect gift for the person who has everything, or scrambling to find that last minute gift, consider a gift that keeps on giving. Learn more [here](#).

[Big Brothers Big Sisters of Waterloo Region](#): The best gift you can give this holiday season is hope for youth in need. A donation to Big Brothers Big Sisters of Waterloo Region will ensure more kids get the support they need to achieve their dreams. Donate [here](#).

## QUOTE OF THE DAY

*At this point, I see the glass as much more than half full. With the right policies, we can fill it further, building on the gains so far and spreading the benefits more broadly...*

— Federal Reserve Board Chair Jerome Powell, November 2019

## We Are

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*The RaeLipskie Partnership provides discretionary fee-only portfolio management for high net worth individuals, endowments and charities.*

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