Mulvihill Market Update

October 2018

Portfolio Performance

Total Returns (CAD $)	1M	YTD	SI
Growth Mandate	-5.1%	0.2%	-1.7%
Moderate Mandate	-3.6%	0.2%	-1.7%
Conservative Mandate	-2.5%	0.6%	-1.2%
Canada Stocks (S&P TSX)	-6.3%	-5.0%	-3.9%

Mandate	Stocks	Bonds	Commodities
Growth	75%	15%	10%
Balanced	55%	35%	10%
Conservative	30%	70%	0%

How are we positioned?

Stocks

Stock markets around the globe experienced severe declines in October as rising interest rates, potential trade wars, and uncertainty around mid-term elections spooked investor confidence. US and Canadian stocks had their worst monthly decline since September 2011, declining -6.8% and -6.3% respectively in October. Emerging market stocks continued to underperform, falling 8.7% for the month and are now off over 15% in 2018. The Mulvihill portfolio mandates have zero exposure to emerging market equities. We continue to view US equities as providing a superior risk reward opportunities.

One Month Return	
US Stocks	-6.8%
Int'l Stocks	-8.0%
EM Stocks	-8.7%
Canada Stocks	-6.3%

Fixed Income

Fixed income outperformed stocks in the month but continues to offer little in the way of portfolio protection for investors portfolios in a rising interest rate environment. International and Emerging Market bonds suffered the largest declines in the month dowr -1.9% and -1.4% respectively. Our allocation to fixed income remains as low as possible in each portfolio as interest rates rise from depressed levels globally.

One Month Return	
US Bonds	-0.8%
Int'l Bonds	-1.9%
EM Bonds	-1.4%
Canada Bonds	-0.6%

Portfolios

The three portfolios (Growth, Moderate and Conservative) recorded negative performance in October. The best performing holding was Gold (CGL) up 1.7%. It was one of the few asset classes globally that had a positive return in the month. US Small Cap (IJR) was the largest drag down -10.5%, giving back gains experienced in previous months. The US Dollar appreciated 1.93% vs Canadian dollar, adding to gains in the US holdings. The Growth and Moderate portfolio sold out of international bonds (IGOV) and Small Cap International Stocks (SCZ) at the beginning of the month. The Growth and Moderate portfolio added to US High Quality (ZUQ) and Emerging Markets Bonds (ZEF), while the Moderate portfolio also added US High Yield (XHY), and US Aggregate bond ETFs (VBU)

Current Market Outlook:

That was an ugly month. It wasn't just the magnitude of the decline, but how fast and relentless it was. The S&P 500 tied an all-time record by not having two consecutive up days over a span of 28 days, and it was only the 19th time the S&P has declined by at least 7.5% within the space of 5 weeks. It is also extremely rare that the market experienced two 10% declines in one year. While we experienced a similar rapid decline earlier this year, for some reason this one feels more ominous to me, although I know not exactly why. Levels of support such as the 200-day moving average have been broken and have now become resistance that the market will have trouble breaking through to re-establish upward momentum. Sentiment readings and the put/call ratio were not negative enough to suggest sellers had been washed out, and in the recent rally the number of stocks participating has been insufficient to conclusively say we have seen the lows. An old investment adage theorizes that the so-called "smart money" operates into the market close, so I am concerned that lately morning rallies have tended to be snuffed out by afternoon selling. There are many positives however; the market did reach oversold levels; this is a seasonally strong time of year; and since 1946 the S&P has always been higher 12 months after a mid-term election. The bottom line is the long term bull trend remains in place, but our level of anxiety is heightened

I will admit to having no strong feeling about what the result of the U.S. elections will be. The outcome will depend on turnout, and which party can muster enough enthusiasm within the ranks to get the vote out. Given the divisive nature of the Trump presidency, one would expect a much higher than normal turnout and early voting is proving that to be the case. A conspiracy theorist could almost make the case that the immigrant "caravan" marching through Mexico was set up by the President to motivate his loyal anti-immigrant followers to get to the polls. As an aside, is it just me that feels that Trump has been around for much longer than two years? While there is likely to be an impact on markets, I believe it will be short-lived and there are larger issues that will be more important. Campaign rhetoric shouldn't be confused with what will be the actual policies put forward post the election. Dan Clifton of Strategas points out that President Obama campaigned in the 2010 mid-terms mainly on a promise to cancel the Bush tax cuts. Reality makes pragmatists of us all. After the Democrats lost 63 seats in the House of Representatives, it took only three weeks for Obama to sign an extension of the tax cut and add a payroll tax cut to the bill. Like all Presidents, he started thinking about his own re-election and proposed increased economic stimulus (which might explain why the S&P always goes higher in the 12 months following mid-term elections).

The U.S. continues to have the world's strongest economy, despite the Federal Reserve maintaining a policy of higher rates and tighter monetary conditions. Given the strength in the economy and employment, and constrained inflation expectations the FED has no reason to deviate from that path. In addition, corporate earnings remain very strong. There is an argument out there that we have seen the peak in the rate of U.S. growth, although not the peak level of actual GDP or EPS. The thesis is based on the notion that the so-called ''second derivative'' is most important, and that markets will react to a slowing in growth and not wait for an actual decline. I have great sympathy for this concept, but I don't believe we have reached that point as of yet. For example, I was impressed with the 3rd quarter U.S. GDP which was reported at 3.5%, but some pundits are more concerned that the number was below the 4.2% we saw in the 2nd quarter. The question is, when will the market be more concerned about better versus worse as opposed to good versus bad?

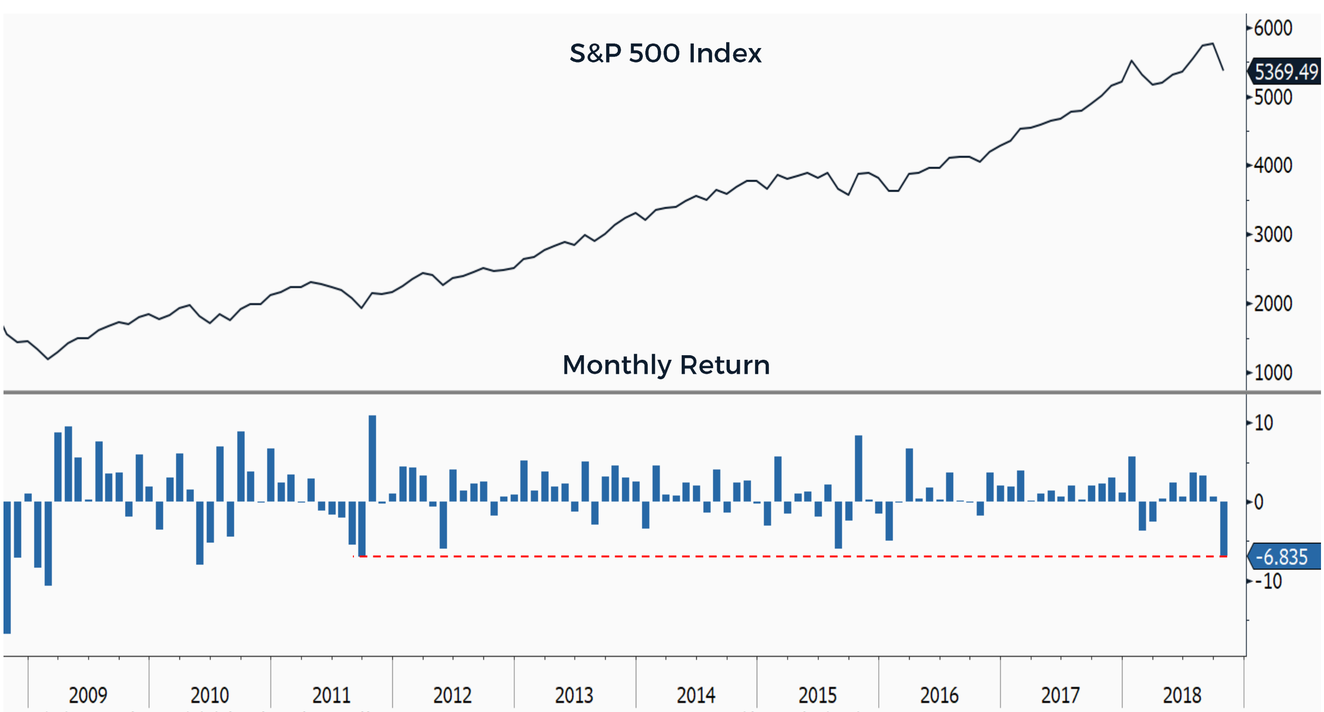
It's possible the slowing in the rate of growth will have an impact on the policies of the FED, and may cause the Board to ease its tightening policies which would be positive for markets.

The economies of the other developed nations are experiencing slowing, but still positive growth. The leaders of Europe, Japan and China, like the US President, are also in the business of trying to keep their citizens happy. As such we are seeing those governments enacting fiscal policies to stimulate their economies, which should benefit overall global growth. It is not just economics that is prompting these efforts, but also an attempt to thwart the continuing rise in populism and the "throw the bums out" mind set among the populace. The most recent example is the resignation of Andrea Merkel as party leader in Germany after an embarrassing result in the Bavarian elections, where fringe parties made big gains. Whatever the reason, aggressive fiscal policies are, (at least for the short term until the debt has to be paid back) good for markets.

I remain in the bullish camp with the expectation that after a needed period of consolidation, the market will reassert itself to the upside. Nonetheless, I am more wary than previously, and will await more definitive proof from the economy and especially the market before jumping back in. Attempting to pick the absolute low is usually impossible and often painful. For the time being, I am abiding by an old hunter's motto, "If you don't know, don't shoot".

October Chart in focus

US Stocks (S&P 500) experienced the worst one month return since September 2011 when the market fell over 7%. Market corrections of this magnitude happen, even within the context of a larger bull market. Had you purchased stocks at the end of September 2011, one year later you would have made 30%, three years later 86% and five years later 113%. Corrections often create opportunity.



Source: Bloomberg

An Introduction to Mulvihill Capital's partnership with Wealthsimple

Mulvihill Capital is pleased to announce it has partnered with Wealthsimple, Canada's leading digital advice platform, to offer three investment portfolios managed by Mulvihill Capitals experienced team of portfolio managers. For more information on this partnership, to learn about the investment portfolios being offered, or how to get invested visit www.mulvihill.com

How do I get signed up?

Sign up directly through our personalized link:
https://wsim.co/v8fx0zp

Schedule some time with Mulvihill Capital to discuss this new and exciting transition

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