



The David Miner Communiqué

Fall 2018

*"It always seems
impossible until
it's done."*

- Nelson Mandela



Sprinting into Autumn!



It is hard to believe that there are less than two months to go in 2018. The ceaseless stream of holiday romantic comedies has already begun on television – much to Dave's chagrin!

Dorinda and Dave spent some time travelling since our last newsletter. In September, Dave attended a conference on Emerging Markets hosted by Franklin Templeton Investments in Hong Kong. (Regulation requires advisors to pay their own travel and hotel costs.)



David and Dorinda in Hong Kong



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While in Hong Kong, Dorinda and Dave took a few extra days to visit Macau and spend time with friends and family. Macau is considered the haven for gambling, and far surpasses the size and volume of the mighty Las Vegas.

Although not gamblers themselves, Dorinda and Dave did enjoy the wonderful restaurants, shows and shopping that the city has to offer. While there, they also took some time to explore what remains of the Portuguese Macau settlement. In October, Dorinda and Dave enjoyed a week of sunny relaxation while attending a friend's destination wedding in Cancun, Mexico.

After several years of studying abroad, and working between Northern Ontario and Alberta, David's youngest daughter Victoria, accepted a position as a social worker specializing in child protection earlier this fall in Halton. It is nice to have Vicki close to home once again!

Emerging Markets



Kiran, Amelia and Victoria at the Toronto Waterfront Half Marathon in October.

Emerging market stocks and bonds are an important component of most global managed solutions that we recommend. The term “emerging markets is a catch-all for countries at varied stages of economic and industrial development found outside of developed markets (North America and Europe), the most notable of which are China, Russia, India and Brazil. Today, emerging markets account for approximately 25% of world stock market capitalization and 43% of the global economy according to Bloomberg. Emerging markets on average enjoy stronger economic growth as they continue to develop their industries, infrastructure and international trade relative to developed markets. Stock valuations in

emerging markets are currently more attractive than those found in developed markets (when comparing share prices to earnings per share). When you combine these factors it’s evident that there is room to grow for emerging markets and the result is that they have become an integral part of all large institutional portfolios, including the \$300 billion Canada Pension Plan.

There are literally thousands of stocks, representing the publicly traded emerging market companies that are listed on dozens of stock exchanges around the world. Only large global portfolio managers possess the operational scale to have the right people on the ground to meet with these companies, understand local markets, and trade the securities locally. Emerging markets each have their own characteristics and can sometimes be volatile. Share prices and currencies often do not move in sync with those in developed markets. Given this reduced correlation, tactical inclusion of emerging market securities in a portfolio can serve to enhance return and reduce portfolio risk.

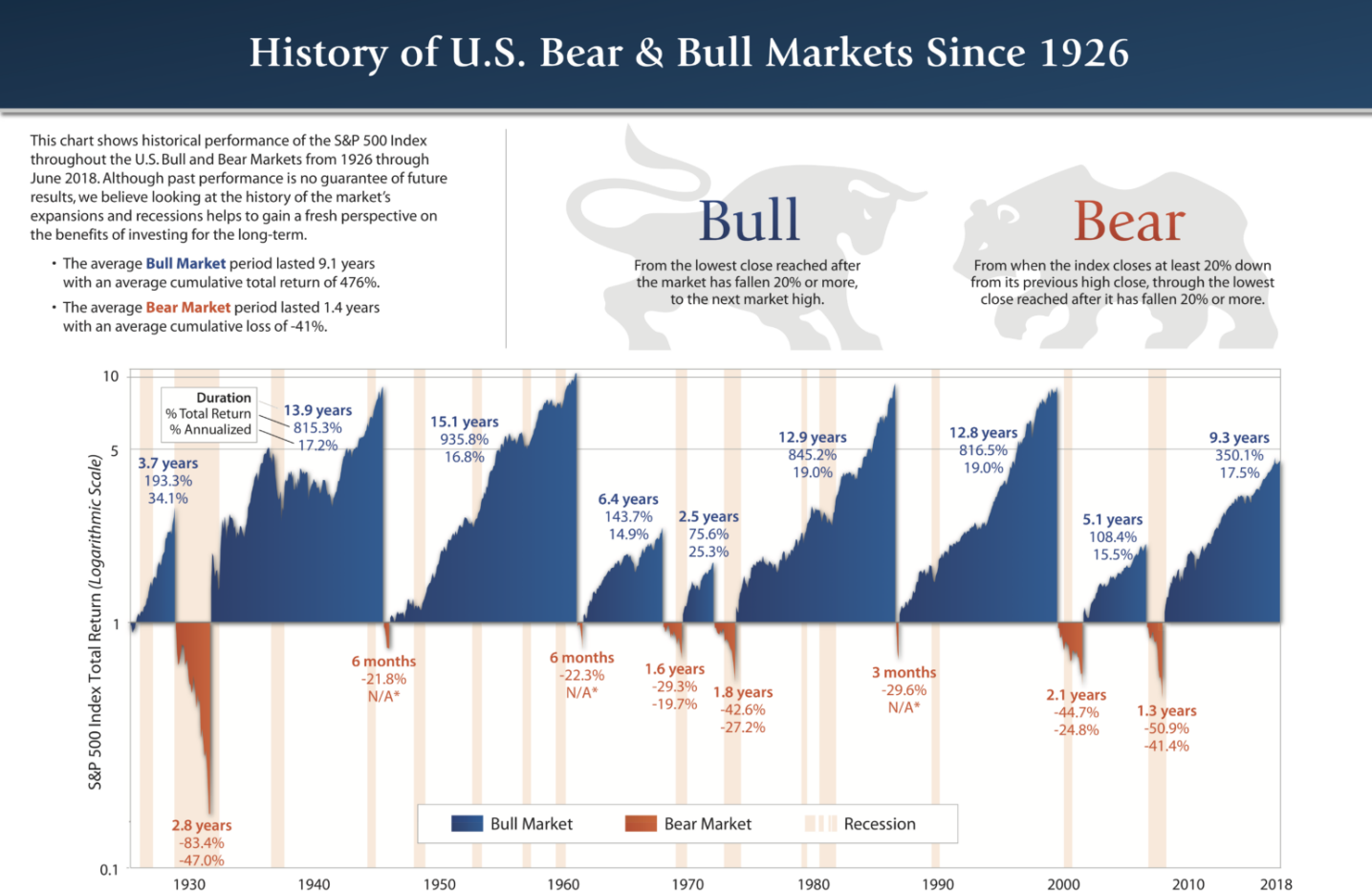
The Ides of October

As we have often experienced in the past, October can be a month of greater market volatility. This October, daily market variances in excess of 1% were noted for **almost half** of the available trading days on North American exchanges. While the October volatility conjures up memories of October 2008 or significant one-day declines like October 1987, this year’s October market was comparatively benign. Over the last few months tariffs, interest rates, and political uncertainty have dominated the news cycle, but it should be noted that global economic growth and corporate earnings remain strong. Current data suggests there are no signs of imminent recession in North America or globally.



Stock markets are driven first and foremost by earnings. As corporate earnings growth remains intact and stock valuations (predominantly the price of the stock relative to its earnings per share) remain at reasonable levels, the softening of stock markets in the last month has created yet another buying opportunity. It is normal for stock markets to climb the “wall of worry” and the most successful investors simply refuse to worry.

The following chart illustrates both the size and duration of bull markets (blue) and bear markets (red) in the US stock market since 1926. Note that the bull markets are both larger and longer in duration than the bear market declines. In a nutshell, market declines are normal and are always followed by substantial market increases.



Source: First Trust Advisors L.P., Morningstar. Returns from 1926 to 2018.

One of the biggest detriments to long-term returns is investor behaviour. Let’s look at a classic example of investors letting emotions erode long-term returns. The **Fidelity Magellan Fund** was managed by Peter Lynch for about 13 years from 1977 to 1990 and returns on this fund were phenomenal – **an average annual compound return of over 29%**. At that rate of return, an investor would more than double their money every three years during that 13-year period. The \$20 million fund which Peter Lynch inherited grew to \$14 billion under his management.





Kiran and Amelia with daughters Maya and Nalina out for a beautiful October walk at Toogood Pond in Unionville

The Fidelity Magellan fund has since been recognized as one of the best performing funds of all time. Looking beyond the fund's performance, Fidelity sought to understand how individual unit holders of the fund performed during that time period. The analysis by Fidelity of that 13-year period showed that the average investor LOST money (i.e. negative returns). How was that possible? Very simply, most investors bought and sold units of the fund based on their emotions – i.e. investors purchased units after a strong run of performance (buying high) and selling after declines (selling low). Emotions and “gut feel” are the worst predictors of what financial markets will do

next. We see from the previous chart that stock market declines are normal, in fact, short-term declines should be expected in all long-term investments such as stocks, bonds, or real estate. We build wealth by staying invested and refusing to act emotionally based on short-term fluctuations.

Fun Facts: Who is the “Average” Canadian?

Have you ever wondered what it is like to be average?

- The average salary for Canadian employees is \$51,000. (Statistics Canada)
- On average, Canadians carry about \$4,000 of credit card debt (CBC article: “Canadians carrying fewer cards, but higher balances”)
- The average annual RRSP contribution is about – \$4,600. If that doesn't sound like you, you're in good company, because most Canadians don't actually contribute to an RRSP; just 47% of those eligible, contributed to a retirement plan last year. (Source: Bank of Montreal's 8th Annual RRSP study).

But life isn't all about money. The average Canadian also...

- Eats 29 donuts every year (nationmaster.com)
- Drinks 194 cans of pop (Statista) per year and for those of legal drinking age, approx. 500 standard drinks per year (Statistics Canada)
- Clocks 6.84 FULL days of exercise per year or about 27 minutes per day (Statistics Canada)

This issue's Franklin Templeton insert is entitled: “*Canadian Retirement Realities*”. Most Canadians are concerned about retirement expenses. Here are some facts...

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