A Message from the Chief Investment Officer,

During this period last year, we received calls from clients inquiring about why we do not have exposure to Bitcoin. This year, we have yet to receive a call about selling stocks to buy Bitcoin but now we are receiving calls to discuss selling stocks to buy cash. Generally, the volume of calls on a particular market has proven to be a contrary indicator. As a starting point, the following chart displays year to date returns for major markets.

	CAD		**USD**	
	YTD	2017	YTD	2017
MSCI World	-2.3%	15.0%	-9.3%	23.1%
S&P 500	1.3%	13.8%	-5.9%	21.8%
S&P TSX Index	-10.2%	9.1%	-16.6%	16.8%

A few observations should be noted from this chart. First, the declines on a YTD basis are negative but in line with what would be expected. If you recall, markets generally go up 70% of the time, so they will show negative returns 30% of the time. The average return for equities over the last 100 years has been 8% but the number of years that US markets have returned between 5 and 10% has been less than 10%.

The second point to note is the importance of diversification beyond your domestic market. For example, any investor solely focused on Canada would have had the worst outcome over the past two years. However, a diversified portfolio would have delivered close to a 6% per year return over the last two years even after taking into account recent volatility we have experienced in the last two months.

So far, 2018 has been unique in that the only asset class that showed a positive return in US dollars was cash. You read that correctly - regardless of which asset class you were invested in, you had negative returns. The big question is whether cash will continue to be the top performer in 2019.

To that we answer, we doubt it. While we do expect the pace of economic growth to slow, we do not envision an environment where it would be negative.

Our view remains that you still need equity exposure. Investing in equities means owning a piece of that business and having ownership in the underlying cash flows that the business produces. You are not buying a number. The businesses that populate your portfolio have a demonstrated ability to produce cash flow throughout the business cycle. If the economy continues to grow as expected, those companies will generate positive cash flows. As those cash flows build within the company, investors are rewarded with either increasing dividends, higher prices or a combination of both. The key ingredient is time.

I wanted to conclude with a comment on the political situation. It is often easy to get caught up in the emotion of the political milieu and we often see this impact investment decisions, but changing your portfolio allocations based on political views has proven to be dangerous to your financial health. The key is to remain focused on the businesses you own rather than the political headlines.

As always, we would be pleased to answer any questions relating to your portfolio and we will continue to be vigilant about monitoring corporate events that would alter our long term expectations. We wish you all the best during this holiday season.

Arthur Heinmaa
Chief Executive Officer, Chief Investment Officer, Cidel Asset Management Inc.