

2019 Annual Letter to Clients

Michael Kirkpatrick

2019 was a great year!

Canadian equities (S&P/TSX Composite Index) was up 22% in 2019. The world stock market (MSCI World Index) was up 23% over the same time period.

This our third annual letter to our clients. We will share some of the highs and lows of the past year and as always your feedback is welcome.

What would we have done differently?

If we could go back to January 1, 2019, we would have allocated more money to equity and in particular, US equity. The S&P 500 (the US stock market) was up 28.9% in 2019.

Wealth Management Highlights and Updates

We had a family business advisor, Enette Pauze come and share some ideas on how to engage the next generation in the family wealth. I summarized her discussion in [this blog post](#).

David Chilton also gave a chat to us in October. He is RBC's spokesperson when it comes to trust and estate planning and in his talk he covered his books, his life and his experiences on the Dragon's Den. David talked about how he lives a very modest life shares that he still lives in the same 1300 square foot home his family has been in for many decades. David said that the more "stuff" he accumulates the more grief it causes him so he always got rid of "stuff" when it accumulated in his life. That being said he can see that lots of Canadians over spend because they want more then they can afford. The result here in Canada and in the developed nations is that a lot of people have debt. Since there is so much consumer debt, he does not think interest rates can go up because if they were to move up, the debt laden consumer would no longer be able to service their debt let alone do any new spending. In short, Chilton believes that worldwide low interest rates will be here for a long time. For more educational and humorous videos on estate planning by [David Chilton click here](#).

In 2018 we introduced the secure inbox which is a great way for us to send you documents that contain sensitive information and vice versa. I wanted to highlight the secure inbox tool again as a way to encourage you to adopt using this platform when sending us information that should be kept secure.

Your 2019 tax documents can be accessed online so if you would prefer to receive your tax documents electronically instead of by mail please call Heather to let her know or send her a secure message or you can make the switch via DS Online (click on "View and Manage Documents", and then click on the "Manage Documents" tab).

Education

Heather completed her Wealth Management Essentials! Her goal for 2020 is to do an introduction to estate and trust planning course so the next time you speak to her ask her how it is going and what she has learned so far.

Unfortunately, my personal learning train has been slightly derailed. My accounting text books have been exchange for story books (mostly Dr. Seuss books) and flash cards in an effort to help our daughter Heidi and Martina with their learning. All that to say my ability to take classes has been diminished in the short term so I have resorted to reading and listening to audio books in order to keep up. I look forward to when I can resume taking more accounting classes as I always find them to be interesting and helpful.

Books

Last year's book, The Wealthy Renter was about housing, and this year's book: Worth It is about women and money. The book shares the story of a woman who did not know anything about money and it takes us through how she got up to speed on all things financial and how it is important to have a basic level of financial literacy. Most of our clients have very good financial literacy so this book may not have applied to everyone but the thought is for the book to be given to someone who may benefit from reading it.

I will continue to try and find books that I think are relevant to you and will share them when I find a good one. Your book recommendations are also welcome.

Portfolio Lowlights and Highlights

On the fixed side of the portfolio, our worst performers over the last year ending December 31, 2019 were: VTIP (Vanguard Short-Term Inflation Protected Securities ETF) which was down 0.44% and ZPR (BMO Laddered Preferred Share ETF) which was up 2.04%.

If our worst performer was down 0.44% then we can say that it was a good year. To re-iterate, it was a good year (or a positive year) for every asset class (Canadian equity, US equity, emerging market equity, every type of fixed income asset etc). This is very unique and while I hope it can go on forever I do not expect this to happen again in 2020.

Our best performers on the fixed side were CXF (CI First Asset Canadian Convertible Bond ETF) which was up 15.02% and ZHY (BMO High Yield US Corporate Bond Hedged to CAD ETF) which was up 13.44%.

Those are pretty amazing returns for fixed income assets. I am sure those numbers will normalize unless interest rates go down again.

On the equity side our worst performers were EDIV (SPDR S&P Emerging Markets Dividend ETF) which was up 6.15% and BMG Bullion which was up 9.52%.

Our best performers on the equity side were VSP (Vanguard S&P 500 ETF) which was up 29.7% and ZDM (BMO MSCI EAFE Hedged to CAD ETF) which was up 24.00%.

Our long term goal is to grow our balanced portfolios (made up of 50% equity, 50% fixed income) by 4 to 6% per year and we accomplished that mission in 2019.

Now the question is, how do we keep it going and how do we protect ourselves in case the market pulls back?

The first thing that we do after great year is we rebalance, which means we take froth off the top of the assets that have done well and add to the assets that underperformed (or that are underweight). This helps us protect what we made and forces us to buy assets that have underperformed (ie: buying low). As for protecting the portfolio from a pull back, we have allocated a portion of our portfolio to fixed income. Fixed income helps to protect us when the market pulls back since funds tend to flow out of stocks into fixed income assets which causes fixed income values to increase. In other words, our fixed income acts as a buoy when there is trouble brewing in the stock market.

Modifications

We moved away from some of the more active or intelligent ETFs in favor of the more pure play, broad based index ETFs. The idea was that it keeps things simple and it also helps to reduce costs. I don't foresee any big changes or modifications in 2020 but I will keep you posted if any occur.

Thank you

Heather and I want to thank you for your trust and we look forward to serving you in 2020.

My wife Saskia and I are expecting another baby girl in June of 2020. I will send pictures when the baby arrives.

Here's to an epic 2020!

Michael Kirkpatrick