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Q2 2019
Investment Commentary

If nothing else, the last nine months demonstrates the difficulties of relying on macroeconomic forecasts for investing.

It was only last fall that there was near unanimous agreement that central banks in Canada and the US would raise interest rates, the only question being the pace with which this would occur. Nearly a decade-long period of monetary easing seemed to be coming to an end, causing most fixed income investments to suffer negative returns in 2018 as investors rushed out of bonds in an attempt to avoid falling prices (and rising yields).

By late 2018 and early 2019 however, the situation had shifted nearly 180 degrees. Amidst a slowing global economy, there is now a clear consensus in the US that the Federal Reserve will cut rates at least once this year and rate increases in Canada are on hold as the Bank of Canada assesses where the economy is heading.

Accommodative monetary policy has, of course, been positive news for both stock and bond markets as investors cheered the possibility of rate declines in the first half of the year. Stocks have surged ahead as investors believe low rates may continue to fuel the economy and make equities look attractive relative to less risky assets. Bonds have also recovered strongly as investors piled back in to take advantage of attractive pricing at the end of last year before yields began to fall again this year.

The overall positive trends this year did mask a fair bit of volatility in the second quarter. April was relatively uneventful, but the S&P500 declined 6.6% in May over trade fears with China, prompting many to raise concerns that this was the year to follow the so-called rule of "sell in May and go away". Those that ignored that advice reaped the rewards of a recovery in June as the S&P500 snapped back 6.9% as investors turned bullish after hearing Fed Chairman Powell soften his stance on inflation.

With the market continuing to advance, there is no shortage of end-of-cycle worries about a stock market decline. Our clients constantly ask us how to protect against potential losses. Our answer is three-fold.

First, the best way to mitigate losses is by ensuring you have an appropriate asset mix and level of diversification in your portfolio. While asset class returns can be correlated during some periods, diversification across different investment areas usually serves to mute portfolio volatility.

Second, security selection within asset classes is crucial. Reasonably priced, high quality, cash flow generating assets will perform better during difficult times compared to more speculative investments that are heavily dependent on market sentiment and uncertain paths to business profitability.

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Third, we always advise clients that preparing and accepting a certain level of short term investment volatility is a necessary part of earning elevated investment returns over the longer term. That is to say, if riskier investments always generated higher returns as compared to riskless investments like GICs and T-Bills, why would anyone ever invest in riskless investments? Accepting risk and unrealized losses in some years is required to achieve outperformance over longer periods of time.

We continue to take a relatively cautious approach to investing your and our money in the midst of this loose monetary policy environment. Our focus remains on investing in attractive businesses that are reasonably valued and ensuring that each of our clients has an appropriate asset allocation in light of their investment circumstances.

On that front, we want to provide a brief update on Bridgeport's Alternative Income Fund. Launched late last year to provide clients with another way to diversify their portfolios, the fund invests in a wide array of North American private income generating assets including corporate loans, commercial and residential real estate credit, structured preferred private equity and aviation finance.

The Alternative Income Fund has scaled up its investment program significantly over the last few months -- its most recent investments include a commitment to a US commercial real estate debt fund (expected to provide exposure to loans secured by over 500 US-based apartments and senior and student residences) and a structured preferred private equity fund that provides senior financing backed by a diverse portfolio of private company interests. Please feel free to give us a call if you would like more information about this fund and how it could provide further diversification to your portfolio.

We wish you all the best for a wonderful summer and as always, please feel free to call should you have any questions about your portfolio.

Yours truly,

John Fisher

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