

Mercator Market Watch

What happened in February?

Last month may be remembered as the month where the long, steep uphill climb of U.S. equities began their reversal in earnest. Many analysts had warned of a coming correction. It may have been supported by economic or market data, but the overwhelming sentiment among retail investors seemed to be that 'this can't go on like this forever'.

By the conclusion of the month, February didn't have the single correction like one that has occurred in the past. Instead February ushered in a return to volatility, and losses for some sectors and investors; not a wholesale downturn.

Many people equate volatility with only losses. They consider gains, even when they occur amid wild swings, as simply gains and good news. It's only when rapid price changes occur while accompanied with losses that people pay much closer attention.

Volatility is the measurement of the change in value over a period of time. The higher the volatility means that the price swings are more extreme, while a low volatility means much less violent changes in value.

Volatility does not measure the riskiness of the investment other than its price riskiness. Price riskiness is important if you intend to use invested assets for a major purchase or expenditure on a particular date (cottage or college, perhaps) or to utilize your nest-egg to fund your retirement.

A simple example of the difference between volatility and risk

Think of a household appliance you need to buy in early December. It will work just as well as the identical one you buy on Boxing Day, but today's sale-price might not be as good as late December's price. There's no risk, other than the price-risk of paying more now than later.

As we exit a period of exceptionally low volatility, and upward volatility that most investors diminish, it might be worthwhile for us to have a discussion on risk versus volatility, and your tolerance for both.

With the exception of the NASDAQ and Gold, which lost under 2% for the month; equities, the Canadian dollar, and oil lost 3-5% in February.



Stock Exchange	Year to Date Dec. 31, 2017 to Feb. 28, 2018
TSX (Toronto)	-4.73%
DOW (U.S.)	1.25%
S&P (U.S.)	1.50%
NASDAQ (U.S.)	5.35%
CAC (France)	0.15%
FTSE 100 (London)	-5.93%
DAX (Germany)	-3.73%
NIKKEI (Japan)	-3.71%
HANG SENG (Hong Kong)	3.09%

Stock exchange source: <http://www.investing.com/indices>

Rates as of February 28, 2018*

Term	GICs	RSPs
1 year	2.37%	2.25%
2 Year	2.57%	2.45%
2.68%	2.75%	2.75%
4 Year	2.83%	2.83%
5 Year	3.08%	3.08%

* Rates subject to change without notice.

DAILY INTEREST ACCOUNT

1.25%

TAX FREE ACCOUNT

1.25%

GIC Rates: <http://cannex.com/customerportal>

For the major equities indices in North America, the correction seemed to be in-place one-third of the way through the month. Despite a poor closing day of February, much of the early losses that had occurred by the 8th and 9th of the month had been eliminated until the trading on the 28th.

In Canada the month closed with the major banks reporting better than expected earnings and the release of the Federal Budget from Finance Minister Bill Morneau.

The highlights from the budget:

- Pay equity legislation, without a price tag, was announced for the federal government and federally regulated industries to close the gender pay gap by nearly 3%.
- The amount of passive income inside small businesses will affect the rate of tax for active business income and profits.
- A working group to study the viability of a national pharmacare program to pay for prescription drugs was established.
- Additional funding for indigenous skills development and childcare was announced, totalling nearly \$1.9 billion over the next 6 years.

One of the largest influences on equities' prices in February was the rising bond yield, which is drawing investment toward it, and away from stocks.

What's ahead for March and beyond?

March will likely continue the trend toward increased volatility for equity markets in North America that February delivered.

Should any questions arise, contact your Mercator Wealth Advisor.

(Information source(s): Advisor Research Group—Market Update 030118)

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