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Chris has a BA in Economics from UBC, and a business degree from Western (now Ivey MBA). Before joining Assante in 1992 he was Treasury Manager for a Fortune 50 firm where one of his responsibilities was Chair of the Investment Committee of the $65 million pension fund.

Chris provides financial planning, investment planning and full implementation services to about 100 families.

We are pleased to welcome new clients. New clients should have $1 million or more of investable assets.

Move to Cash?

I've had several calls from clients worried about the state of markets and wanting to switch some or all of their portfolios to cash. It seems that reports about the markets being ripe for a precipitous crash because they've had an extended rise and now are 'dramatically overvalued', are getting on people's nerves.

If several have actually called, more clients are likely worried too, so here's my answer.

Trying to time an exit from a market is a fool's errand that nobody has been able to do consistently. It's why Warren Buffet observed that he 'doesn't know anyone who knows anyone that can time the market'. It's also trickier, and often much more costly, than it first appears. Here's why.

Say you traded out of your equities on September 8th as Hurricane Irma was reaching its most fearsome and about to hit the Florida coast. The S&P500 was at 2460.

Monday September 11th, it became apparent that Irma wouldn't be a problem. The S&P500 closed up 30 points at 2490. As I write in early November the S&P has continued its marvellous advance and sits around 2580, up 3.6% from when you got out.

Now the market has to decline to something less than where you got out at 2460, or you've lost money on your bet. Say the market defies you, as it likes to do, and goes up another 100 points. Now you need an 8% decline to break even. The longer it continues to rise, the worse your position becomes.

Introduce 'The Whipsaw': So you buy back in. Just in time for the market to correct. Say the decline is just an average correction of 14%. Now you've missed the 7% run up, and caught the 14% down. This Whipsaw starts to hurt.

In a market where your long term historical return is 10%, you've just lost 14%. Your patient neighbor is down only 7%. Say you stay cool, hold on, and the market recovers the 14%. The market finishes the year up 7%, while you finish the year at zero. Your well-advised neighbor is up 7%.

The example above is actually a 'Half Whipsaw'. The full smack is when you lose your cool and sell out after the 14% correction, just in time for it to be over and the market to go up. Now you've lost 14% and are missing the upswing – again! This time, you wait a few months to regain your courage as the market goes up; eventually you get your courage up and buy back in, just in time for another average correction of 14% to begin.

Big Mistakes come in many forms, but the Whipsaw is a classic. You are toast. Your portfolio will never catch up.

Here's a few more reasons why I'm not trading out. Keep in mind these comments are certainly not a forecast. I have no idea if the next 500 points in the market will be up or down. My comments are just my perspective on some of the questions of the day.

Global Growth Synchronized

Financial conditions – low interest rates and availability of credit – remain 'green for growth' around the world, says Eric Bushell, Chief Investment Officer of Signature Investments, a $34 billion money manager, in a conversation in Palm Springs recently.

Chinese growth has slowed? Yes, from 6.9% to 6.8%. This will double the size of the Chinese economy in only 10 years, if the pace was maintained.

Eric also says 'China 2.0' is blowing past US banks in digital commerce. China's digital commercial transactions – on cellphones - totalled US$752 billion last year vs US$395 billion in the US.

American banks are hobbled by an adversarial relationship with litigation-happy District Attorneys, while China's confidence is growing, based on a chipset for cellphones currently more powerful than Apple's, says Bushell.

China 2.0 is not so much a challenge to US banks as it is an indication of the rapid growth and modernization of China. Doubling China's economy, even if it takes 20 years rather than the current pace of 10, will be the equivalent of adding an entire United States to the world economy. As Steven Roach said in his 2014 book on the codependency of the US and China, China's transition to a service economy will present very good opportunities for US companies, because the US excels in consumer services such as fashion and design, education, personal care, business management, logistics, engineering, insurance, and so on.

China, by the way, has well over 20,000km of high-speed rail in operation, with at least another 10,000km under construction, according to The Economist. As Charles Liu said, 'China has already emerged'.

Eric also talked about a 'tsunami of money' accumulating in low-risk assets. Cautious investors including pension funds and other consultant-driven rearward-looking 'analytical model types' are herding into low-volatility yield assets such as bonds. This is causing a bubble in low-risk assets as demand drives bond prices higher and yields even lower (yields and prices move in opposite directions).

All of which is making equities look good. Corporate earnings per share of about 5.5% - and growing - compare very well to 10-year Treasuries at 2%. Remember that bond yields are fixed – that's why bonds are called fixed income – whereas equity earnings tend to grow.

After inflation the earnings yield on equities is even more compelling: the real yield on 10-year Treasuries is about 1%, compared to about 4.5% on equities.

This tsunami of money represents future buying for equity markets as those assets migrate from bonds into equities. Imagine what happens to equity markets when investors become tired of the paltry returns in low risk/low return investments – or suffer losses as accelerating growth boosts interest rates.

United States

Earnings drive the markets. More than 67% of US companies have reported positive revenue surprises for Q3, and 75% have reported positive earnings surprises, according to Factset, an analytics firm.

Donald Trump: certainly having the President declare war on news media is journalism heaven. But Trump, like Rob Ford and even Rachel Notley, is merely reflecting the people's dislike of mainstream self-serving politicians. Maybe one day we'll be smart enough to elect leaders that actually have a responsible view of the long-term future.

The good news is the US economy is doing well. Growth is estimated by The Economist at over 2% this year, and is accelerating, with the last two quarters at 3% (annual rate). Unemployment is 4%. Hourly wages are growing.

Not only are interest rates and inflation low, but the cost of energy is half where it was a few years ago. This is a massive cost reduction to every consumer in the world. The US has gone from an apparently hopeless 'addiction' to oil to having about 100 years' supply from shale oil, courtesy of horizontal drilling and hydraulic fracturing.

Europe is rebounding. Unemployment there is 9%. GDP growth is over 2%, with the Netherlands, Spain, Czech, and Sweden all over 3%; Poland is growing at almost 5% and Turkey over 5%, according to The Economist.

The world is doing well. Southeast Asia, India, and China all have their economic houses in order and are growing between 5% and 7%.

Will rising interest rates crimp equities? No. Not for a long time yet: gently rising rates are the natural response to economic growth. The equity markets will welcome them.

Due for a correction? 'The markets have been going up for 9 years and are due for a fall'. Yes, maybe. But much of that 9 years was recovery from the 57% decline in 09. The US market only surpassed its previous high in 2013, so it's a 4 year bull, not 9.

Besides, we've had two corrections, 10% in August 2015 and 12% in early 2016. Remember the screaming about the first 6 weeks of 2016 being the worst since 1929? In Canada those corrections linked together for a total drop of 20%, touching bear market territory and spiking anxiety. So the idea that we are due for a correction because we haven't had one for awhile is just false.

Much more importantly, the presenting symptom in investors today is anxiety. I'm getting questions today about moving to cash, not borrowing more money to invest in equities. Anxiety is known as a contrary indicator, because the crowd is always wrong. If people are anxious they have their money somewhere else, such as low-volatility things like bonds. The market is dangerous when nobody is skeptical – remember the tech bubble?

Final comment on going to cash: I said in my April 2017 letter that 'since the US market was up about 25% from the lows of early 2016, and since declines of 10-14% happen virtually all the time, we shouldn't be the least bit surprised to see a bit of a pullback'. The S&P was at 2350 at the time. Now it's at 2550, up another 8%.

So what do I think about moving to cash? "Go ahead. It's your money. But if you do, you are on your own. I have no more insight on getting back in than I do on getting out, and neither does anyone else.

Of course we should be ready for a correction. It could happen any time. As always.

Book Review

The Death of Expertise

Author Tom Nichols explores the disturbing combination of today's individualism, obsession with equality, and indifference to lifelong learning. The book uses interesting examples such as how a toilet flushes to illustrate how little we know, but also pushes into deeper water with the 'Dunning-Kruger effect' – people who know little about a subject are more likely to consider themselves significantly more knowledgeable than they actually are, because they have no idea how much there is to know about it.

Paradoxically, the ocean of information today has not made society more knowledgeable, it has 'produced an army of ill-informed and angry citizens who denounce intellectual achievement and distrust experts'.

His comment about the folly of equating political equality with actual equality is worth the price of the book alone. But it is also a call to action: 'It is ignorant narcissism for lay people to believe they can maintain a large and advanced nation without listening to those voices more educated and experienced than themselves'.

Nichols is Professor of National Security Affairs at the US Naval War College, adjunct professor at the Harvard Extension School, a former aide in the US Senate, and author of several books on foreign policy and security.

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