

		Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	YTD
GTAA Growth 100	2017	-	-	-	-	1.63%	-0.09%	1.98%	0.05%	0.43%	1.47%	0.37%	1.40%	7.45%
	2018	1.57%	-	-	-	-	-	-	-	-	-	-	-	1.57%
		Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	YTD
GTAA Income 100	2017	-	-	-	-	0.75%	-0.17%	1.25%	-0.18%	-0.48%	0.75%	0.34%	0.78%	3.08%
	2018	-1.20%	-	-	-	-	-	-	-	-	-	-	-	-1.20%
		Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	YTD
GTAA Moderate 50	2017	-	-	-	-	0.63%	-0.12%	0.95%	-0.10%	-0.57%	0.79%	0.09%	0.53%	2.21%
	2018	-0.66%	-	-	-	-	-	-	-	-	-	-	-	-0.66%

A New World Order

The cross-currents from Davos last week highlight the potential for increased currency volatility in coming months and, correspondingly, its impact on investment returns. In a departure from the last several administrations, Treasury Secretary Mnuchin suggested that the U.S. would welcome a weaker greenback. This comes after a 10% decline in the DXY (the USD vs. a basket of other currencies) since the Spring of 2017. Despite Trump’s next-day insistence that the U.S. actually wants and expects a stronger currency, there is a real risk of increased currency volatility in financial markets going forward.

Why is this important?

In addition to creating uncertainty regarding the U.S. dollar, the Trump administration is also undermining stability across global trade, tax, and immigration regimes. Given the dominant role of the U.S. in the global economy and the status of the USD as the world’s reserve currency, its stability has contributed to low volatility across financial markets and has played an important role in stoking global equity markets. Any erosion in USD confidence could easily spur a reduction in risk appetite and accelerate the path towards higher interest rates, thereby interrupting the bull run in equity markets.

Canadian investors should have a large portion of their portfolios invested outside of Canada. The Canadian stock market is only 3% of global equity markets, and is heavily weighted in financials (40%) and energy (20%). Moreover, the Canadian market is largely devoid of other, major sectors (technology, healthcare, etc.). This means that Canadian markets are incapable of providing investors with sufficient diversification. However, when investing in foreign securities, Canadians need to be cognizant of the accompanying currency risks.

Whereas currencies tend to mean revert over long periods of time, this fact is cold comfort when short-term movements can have an outsized impact on investment returns. When the Canadian dollar weakened to approx. 1.40 vs. the USD in late 2015, this had the effect of making many investment managers who were invested in U.S. securities look like geniuses. Conversely, since May of last year, Canadian investors have suffered a currency loss of approximately 10% on unhedged USD investments as the Canadian dollar has strengthened against the greenback.

At OWM, we are very mindful of the effects of currency swings on investment returns. Specifically, we hedge a minimum of 75% of our currency exposure. The remaining 25% is either partially or fully hedged according to our statistically-driven rules based on quantifiable evidence. This has the practical effect of dampening volatility while simultaneously adding incremental returns over the long-term.

Investment Strategy and Objectives

Outcome Wealth Management manages portfolios comprised of large, liquid ETFs. Our strategies are designed to provide efficient global diversification, offer better protection in bear markets, and deliver higher long-term returns.

GTAA Growth 100

The GTAA Growth 100 strategy was 80% invested in growth assets in January. Leading the way were emerging market stocks, which rose 8.3%, for the month. The second largest contribution came from U.S. stocks, which rose 5.6% during the month. On the negative side, U.S. REITs and Treasuries were a drag on performance, declining 4.3% and 3.3% for the month, respectively.

For February, the strategy decreased its exposure to growth assets by 10% to 70%, with the remaining 30% of the portfolio invested in U.S. short-term investment grade corporate bonds. Specifically, the strategy liquidated its positions in Canadian stocks, U.S. REITs, and Treasuries while adding exposure to U.S. high yield bonds.

GTAA Income 100

The GTAA Income 100 strategy was 78% invested in growth assets during January. International REITs were the largest positive contributor to performance, rising 3.9% for the month. Our long positions in U.S. high dividend stocks also had positive contributions, rising 1.9% for the month. Results were dragged down by our positions in U.S. REITs and Treasuries, which declined 4.3% and 3.3% respectively.

For February, the strategy decreased its exposure to growth assets by 22% to 56%, with the remaining 44% of the portfolio invested in U.S. short-term investment grade corporate bonds. In terms of individual positions, the strategy liquidated its exposure to U.S. REITs, Canadian stocks, U.S. investment grade bonds, and Treasuries while adding exposure to U.S. high yield bonds.

GTAA Moderate 50

The GTAA Moderate 50 strategy was 50% invested in growth assets during the month, with performance drivers that were similar to the GTAA Income 100 strategy, albeit on a muted scale due to the former strategy's lower aggregate weighting in growth assets. For February, the strategy is maintaining the same 50% level of exposure to growth assets, with the remainder of the portfolio invested in U.S. short-term investment grade corporate bonds.

ETF Performance

Symbol	Geography	Asset Class	Jan	YTD	1 Year	3 Year	5 Year
XIU	Canada	Stocks	-1.5	-1.5	6.6	5.7	7.9
SPY	U.S.	Stocks	5.6	5.6	26.0	14.0	15.1
VNQ	U.S.	REITs	-4.3	-4.3	0.7	1.3	7.0
PFF	U.S.	Preferred Shares	-1.2	-1.2	4.3	3.4	4.1
HYG	U.S.	High Yield Corporate Bonds	0.0	0.0	5.1	3.9	3.6
SJNK	U.S.	Short Term High Yield Corporate Bonds	0.7	0.7	4.8	3.7	3.0
LQD	U.S.	Inv. Grade Corporate Bonds	-1.2	-1.2	5.5	2.1	3.3
SDY	U.S.	High Dividend Stocks	1.9	1.9	16.9	12.0	13.1
TLT	U.S.	Long Term Treasuries	-3.3	-3.3	4.8	-1.5	3.4
VCSH	U.S.	Short Term Inv. Grade Corporate Bonds	-0.3	-0.3	1.5	1.5	1.7
IEV	Europe	Stocks	5.5	5.5	28.0	7.7	6.4
RWX	International	REITs	3.9	3.9	17.0	3.3	4.1
EWJ	Japan	Stocks	5.0	5.0	25.9	12.4	10.7
EEM	Emerging Markets	Stocks	8.3	8.3	39.0	11.0	4.5
EMB	Emerging Markets	Sovereign Bonds	-0.6	-0.6	7.6	5.5	3.4

Source: FactSet Research Systems Inc.

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