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# Thoughts on Recent Global Events

It is likely difficult for any of us to truly comprehend the toll that the recent tragic events in Japan have taken on its people. Our thoughts and prayers are with them.

While in some ways it feels trivial and disrespectful to comment on the financial ramifications of these events when so many lives have been lost, we feel it is important to provide our clients with our thoughts on the impact that these events are having on their portfolios. To this end we have spoken with most of our investment managers over the past few days to ensure we have a good understanding of how portfolios have been impacted and to understand what adjustments, if any, they are making.

It is at times of significant drops in the equity markets that many are reminded of one of the important roles that bonds play in well structured portfolios. As recently as this past fall, as equity markets continue to rocket skyward, we had clients asking us if they should be reducing their bond exposure (given the potential for rising interest rates) and increasing their exposure to stocks. Generally our response was “no”. Our reasoning for this was well articulated in a few articles that we posted on our blog (*Don’t Forget Bonds*, and *Lest We Forget*). During times of crisis or stock market corrections, bonds tend to act as a very good stabilizer, limiting the drop in the overall portfolio’s value. This time around has been no different.

From a global stock market perspective no one knows for certain what will happen. While investors may be able to digest the devastation caused by the earthquake and ensuing tsunami, trying to understand the potential outcome (and impacts) of the ongoing nuclear situation is nearly impossible, and views seem to change with every new piece of information that is released. Perhaps nothing reflects this more than the intra-day volatility that has been witnessed in the stock markets. While the S&P/TSX Composite Index lost 22 points today, this masks what occurred throughout the day. At one point the index was down 116 points, at another point it was up 134. That’s a 250 point swing! On Tuesday the swing was even larger. At its worst point on Tuesday the Toronto market was down 381 points but it finished the day down *just* 72 points. Clearly investors are reacting to news as it happens and trying to interpret it as best they can.

During our conversations with our managers a few common themes began to emerge:

1. The events in Japan (combined with those in the Middle East and North Africa) will likely temper the global economic expansion

2. The increase in interest rates in most developed countries will likely be pushed further into the future

3. Equity managers who may have underperformed during the meteoric rise in stock prices over the past 2 years, tend to be outperforming over the past week as it is the (what most consider) riskier assets that have been hardest hit

On this last point one of our managers (Dixon Mitchell Investment Counsel) summed it up best when they stated "*Over the past six months, market indices have raced ahead, buoyed by a sense that western economies are beginning to mend and emboldened by the exceptionally accommodative monetary stance taken by the US Federal Reserve. As confidence grew, so too did investor appetite for risk, with commodity oriented and economically sensitive sectors leading indices higher. In recent days, these same groups have borne the brunt of the selloff as capital has flowed toward liquidity and safety.*"

We have reviewed the portfolios of each of our managers and have identified very little direct exposure to Japan. Even our preferred global equity manager, Guardian Capital, did not own any Japanese stocks leading up to the disaster. Also, none of our managers own any uranium stocks which have been especially hard hit in recent days.

Each of our equity managers have stated that they; are not making any significant changes to their portfolios as a result of recent events, remain watchful of ongoing events and continue to closely monitor the possible outcomes of the unstable nuclear situation and its potential impact (both short and longer term).

Our bond manager, Beutel Goodman, has stated that government guaranteed bonds increased in value over the past few days as capital fled to safe havens while the value of corporate bonds (even high quality ones) dropped marginally. Overall Beutel believes the bond portfolios are well positioned and the drop in value of corporate bonds (relative to government bonds) will be short lived.

As a result of these recent manager discussions we remain very confident that they are each well positioned, continue to monitor events closely, and will make appropriate decisions based upon information as it becomes available.

Based upon all of the above, we are not recommending any changes to client portfolios. As always we will continue to monitor the situation and will be in touch with each of our clients directly should our views change.

Should you have any questions, please don't hesitate to call us.