

# The Market in Review

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## This week's articles and insights

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**“Prosperity is not an event – it’s a process.”**

**- Jim Rohrbach**

## Your Index Report

	Current	Last Week	Year-to-Date
Dow Jones Ind. Avg.	28,267	+ 1.38%	+ 21.18%
S&P 500	3,193	+ 1.92%	+ 27.35% (+22.79% in \$CDN)
TSX	17,075	+ 0.73%	+ 19.21%

## The Stages of Age

A recent study on aging showed a very interesting result. It turns out we don't age gradually, but in plateaus of aging. And it has to do with the levels of certain proteins in our blood.

*“Many proteins remain constant for a while and then at one point or another undergo sudden upward or downward shifts. These shifts tend to bunch up at three separate points in a person's life: young adulthood, late middle age and old age.”*

- Stanford Medicine study

The first step of aging occurs around age 34, the second at about 60, and the final one at age 78. The study analyzed 373 proteins in the blood and found approximately 100 of them change sharply at different age levels.

"Proteins are the workhorses of the body's constituent cells, and when their relative levels undergo substantial changes, it means you've changed, too," Tony Wyss-Coray, a Stanford professor said. "Looking at thousands of them in plasma gives you a snapshot of what's going on throughout the body."

Vampires may have been onto something. Older mice given younger mice's blood have more strength, energy, memory, and even live longer than those with old blood. Dracula may have known why before we did - young blood has different amounts of “good” proteins and lower amounts of “bad” proteins. It seems that proteins linked with positive effects decline over time, while proteins tied with negative effects (like vision and memory loss) increase with age.

Why these ages? No one knows definitively yet, though it could be related to hormones. The earliest signs of menopause – estrogen reduction in women – can begin in the mid-thirties. This is also about the time when wrinkles appear on your face and skin begins to lose its elasticity. Full menopause for women occurs between 50 and 60, while andropause (a significant decline in testosterone) occurs for many men after the age of 78-80.

Exercise may also play a role. We already know vigorous exercise and a healthy diet can slow the onslaught of these “bad” proteins. Exercise in your 60s and beyond can dramatically improve memory, for example.

The right genetics also help. Studies on certain populations of long-lived Ashkenazi Jews showed them to have levels of proteins more like much younger people at every stage of their lives, with memory and grip strength (two markers that change closely with age) remaining far longer than with most of the general population.

The telltale clues found in blood proteins means that researchers will be pointing their work in new directions in terms of age-related diseases, such as dementia, and age-enhancing drugs. A start-up biotech company called Alkahest has already performed a trial giving young blood plasma to older people with dementia. It is early, but the recipients did experience some cognitive improvement. The company is now focusing on one protein that it hopes will stop age-related macular degeneration – a leading cause of blindness in old age.

Researchers say new anti-aging drugs will take at least ten years. Can they speed it along just a little?

## You're Only as Old as You Feel

Much has been written about the old age of the current bull market which, at ten years and running, is a creaking centenarian by market standards. Yes, there are many signs we are running on fumes. Valuations of many U.S. stocks (as measured by price/sales and trailing earnings) are higher than they have been in 90% of all years measured. Global debt is high after years of borrowing. Bad loans – lending done years ago with sloppy standards – are on the rise.

These factors typically point toward a recession within a year or so.

Rising debt, weaker lending standards, and higher valuations are the bad proteins we find in the old blood of the markets. Add in ongoing US-China tensions which won't end with one trade deal, a US impeachment vote, and record low interest rates.

And yet...this bull market is not behaving like it is ten years old.

- Many companies have weathered the China trade wars and cut costs.
- Asian market valuations are a lot cheaper than they are over here. Japan, in particular, has many world-class companies that are forgotten in the US-dominated news.
- The Chinese market has been stuck at the same level for three years and could benefit greatly from a trade deal that eases tensions with America.

*“From a regional standpoint, the story for 2020 could be upside outside of the U.S.”*

- Ned Davis Research

Returns for US stocks in 2020 are still likely to be positive, but much more muted than this year. The better story may finally be on global markets – there are more cheap investment opportunities in Europe and the emerging markets than in the U.S.

## Another New Decade

In case anyone forgot, next month marks the turn of yet another decade. This one is sort of sliding in, rather than arriving with excitement (Y2K in 2000) or fear (2010 after the crash in 2009). It is hard to even remember how we all felt ten years ago but, thanks to the joy of writing a regular newsletter for over 25 years, we know exactly how we felt in December of 2009. Here's what we wrote exactly ten years ago:

*“Most decades end with a bang, but because the number 2009 doesn't look much different from 2010, this one is slinking out the back door quietly. It doesn't help that stocks are lower today than they were in 1999, that a war begun in 2003 is still being fought, and that most people are more interested in pulling their horns in than tooting them in celebration.*

*On a daily basis, we are besieged with a constant barrage of bad news. From Global Warming warnings and health scares, to bombings and sports heroes behaving badly, it seems the world is going to hell in a hand basket.”*

Despite all our fears, the world managed to stumble along, as it always does and always will. We have as many fears today as we did in 2009 about the decade ahead – they are just different fears. The truth is, we are very poor at long-range predictions (especially about the end of the world), so why do we even bother worrying?

For example, here's what the predictions were ten years ago:

- T-Bill rates must rise in 2010. But, long-term bonds are not going to plummet, as many fear.

Right, but wrong. T-Bill rates did rise in 2010, but came right back down in 2015. Bond rates went to all-time lows in 2016.

- The theme of the "frugal future" will also be with us for years. Canadians, now carrying our highest level of debt-to-disposable income (145%) since records started being kept in 1990, will too.

Nope again. Who knew low interest rates meant we would borrow even more? Canadians now have a debt-to-disposable income level of 173%. And we are still going about our business, just as we did then.

- High unemployment will be an issue for years to come, unfortunately.

Unemployment is at record-lows in the U.S. and close to that in Canada. Didn't see that coming.

We also predicted Blackberry as a stock of the future in 2009 and natural gas as a great investment. Today, the only place you will find a Blackberry phone is in a museum, and natural gas is so plentiful, we were actually giving it away in some months during the last few years.

Again, didn't see those two coming.

## Knowing What Not to Fear

Politics – and politicians - play a much smaller role in the future than we think.

For example, the U.S. seems paralyzed by the possibility that President Trump could get impeached next year. But does it matter?

Andrew Jackson, Richard Nixon, and Bill Clinton were all impeached during their terms – the only three previous presidents to go through this ordeal. The impeachment process caused markets to wobble, but once it was over (none resulted in removing the president, since Nixon resigned), stock markets rallied. So, a whole lot of nothing.

The market's bigger fears are trade-related. Christmas came early this year with two big gifts in the USMCA and a China trade deal being announced. And Brexit should stop being a big uncertainty going forward.

All we really know is that 2020 won't be like 2019. Interest rates fell this year and U.S. stocks were the best in the world. Commodities, like oil and copper, were poor performers. Most people think inflation is dead and interest rates will never go up again.

Lots of room for surprises ahead.

## The Changing Nature of Giving

It is that time of year when every charity has its hand out. And justifiably. Most people donate at the end of the year, both for tax reasons and because we are procrastinators.

The nature of philanthropy is changing, though. And we can thank the Millennial generation for changing it.

Baby Boomers became comfortable with giant charities that did it all for us. One-size-fits-all organizations that were like department stores.

But dumping money on somebody can do more harm than good. Nearly one-third of all lottery winners eventually declare bankruptcy. Millennials have seen this over their lives and want two things: accountability and direct access to the person on the other end of the donation. The Bill and Melinda Gates Foundation is rigorous in demanding results from their philanthropy, which has forced more charities to ascertain whether their generosity actually makes a difference.

And crowdfunding – the solicitation of micro-donations for a person or a cause – is now a huge movement. Small donors can now target events, people in need, or new businesses by banding together.

We are also seeing clients target their own families more. There are often needs very close to home, and parents and grandparents have become more and more generous over the years, both with hand-ups and handouts. At least, this is what we have observed.

It has been a good year in the markets. Not everyone in society has been blessed by rising stock prices. We bear this in mind as we write our own cheques this year.

Merry Christmas from all of us to all of you!

*Thank you for your referrals this month! They are always handled with great care and discretion.*

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Prices shown as of December 17<sup>th</sup>, 2019

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