FIRST CAPITAL FINANCIAL

WORLDSOURCE FINANCIAL MANAGEMENT INC.
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It has been quoted and re-quoted many times in previous **Around-the-World** blog postings that *it's hard making predictions -especially about the future*. Attributed to Baseball great Yogi Berra, this statement is particularly true when it comes to stock markets. At least in the short term anyway, but in the medium to long term, history has shown that stock markets are entirely predictable in their directional movement: up.

"Regular or high-definition?"

So when forecasts are made about the next decade as summarized in the Yahoo!Finance article <here> that call for zero returns, a healthy degree of skepticism is in order.

Capital markets bring together buyers and seller to trade stocks, bonds, currencies and other financial assets. They are a mechanism for pricing today the future income stream of a given asset. Most importantly, markets provide essential funding to companies that allows ideas to be commercialized, which is the central feature of today's global economy.

The position then that equity returns will be flat for the next ten years, is to argue that the capitalism and its central feature of dynamic wealth creation through innovation will somehow stop. Our view is that this simply is not the case, and that while recessions are an unfortunate part of the business cycle, the probability of one lasting as long as the Great Depression is low.

This said, we agree with the view that cheap money has inflated asset prices and valuations from everything from stocks to housing, are likely to see means reversion. In this eventuality, market gains

could likely be lower going forward, as price-earnings (P/E) multiples move back towards their long term historical averages. More, that the traditional 60/40 equity/bond weighting in portfolio allocations is unlikely to repeat its performance of the last ten years. This is because rising interest rates will limit bond returns for part of this time, and lower overall equity returns will further constrain total returns.

Passive investing (buying investments that mirror the returns of a given stock market index) worked very effectively since the end of the Financial Crisis in 2009. Our view is that over the next while markets will favour stock pickers, whose portfolio allocations look very different than the broader markets. This is why our portfolios include best-in-class wealth management companies including **Dimensional**, **EdgePoint Guardian Capital,** and **Mackenzie Investments**. Their fund management teams have proven track records for delivering solid, risk-adjusted returns for investors over time. We remain confident that even in range-bound markets, they will find investment opportunities and capitalize on them for the benefit of our clients and their retirement savings.

In short, stock markets quantify human progress and unless there's another Dark Ages -the term used to describe the period following the fall of the Roman Empire characterized by economic, intellectual and cultural decline- stock markets should advance in step with human achievement. Be patient, be diversified and be realistic about investment returns and your portfolio will be just fine.

Thanks for reading!

Martin
1-519-546-5088

MARTIN WEILER, FINANCIAL ADVISOR
FIRST CAPITAL FINANCIAL / WORLDSOURCE FINANCIAL MANAGEMENT INC
50 CORESLAB DR. DUNDAS, ON L9H 0B2
P: 519-829-1331 F: 833-869-8042
MARTIN@FCFCORP.CA

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