MONTHLY

InvestmentMonitor

JUNE 2014

May in Review

Geopolitical tensions between Russia and Ukraine continued to dominate headlines in May, yet the markets generally shrugged off the news and continued to trend higher. North American markets were mixed as the U.S. closed up and Canada ended slightly lower for the month. Bonds and global equities were gainers, with emerging markets delivering the strongest returns.

Canadian exports take a dip With exports falling for the second time in three months, Canada's trade surplus in merchandise declined in March. Although imports were at a record high, exports shrank due to lower demand from the U.S., which currently receives about 75% of Canadian exports. Bank of Canada (BoC) Governor Poloz sees this trend reversing itself over the coming months as the weaker Canadian dollar should lead to an increase in orders from the U.S. for goods and services.

Inflation surprises to the upside According to Statistics Canada, inflation rose 2.0% in April, reaching the BoC's target rate for the first time in two years. Because higher energy prices were the main driver of the inflation, Governor Poloz views the rise as temporary and is neutral on the direction of the next interest-rate move. The BoC will meet on June 4 to decide on interest rate policy.

U.S. Federal Reserve Board (Fed) weighs interest rate options The Fed has opened discussions on how it will begin raising interest rates, according to minutes from April's Fed meeting. With many observers expecting rates to rise in the second half of 2015, the Fed cautioned that rate increases are not imminent, even though discussions have begun on how to implement them. Rate increases would indicate confidence that the economy is more stable and self-sustaining.

Europe explores loosening monetary policy As the eurozone faces the threat of deflation, the president of the European Central Bank (ECB), Mario Draghi, indicated that he is prepared to ease monetary policy beginning in June. The Governing Council of the ECB will review forthcoming projections prior to deciding on taking action, which could include lowering the interest rate or injecting more capital into the financial system.

Chinese economic growth decelerates After slowing to an 18-month low in the first quarter, Chinese economic growth risks missing its forecasted target for the first time in 15 years. Being a major trading partner to the world, any setback in the Chinese economy could affect Canadian exports of natural resources to the major buyer of commodities. Canada also imports manufactured goods from China, and should those imports slow, Canada could see a rise in price pressures.

Words from the Wise

"Many investors are like a soccer goalie facing a penalty shot. They feel compelled to move, when in fact, sometimes their optimal course of action is just staying put."

Izet Elmazi, *Portfolio Manager, 1832 Asset Management L.P., April 2014*

INDEX (C$)†	Change (%) 1 Mth	YTD	1 Yr	Index Level
Treasury bills‡ (FTSE TMX Canada 60 Day T-Bill)	0.08	0.36	0.95	156
Bonds‡ (FTSE TMX Canada Universe Bond)	1.22	4.55	2.94	924
Canadian equities (S&P/TSX Composite)	-0.16	8.45	18.99	14,604
U.S. equities (S&P 500)	1.42	7.17	26.20	2,087
Global equities (MSCI World)	1.14	6.80	25.21	1,861
Emerging markets (MSCI EM)	2.58	5.69	9.61	1,115

CURRENCIES†	Change (%) 1 Mth	YTD	1 Yr	Exchange Rate
C$/US$	1.07	-2.05	-4.32	0.9221
C$/ Euro	2.80	-1.27	-8.82	0.6762
C$/ Pound	1.74	-3.24	-13.26	0.5501
C$/ Yen	0.60	-5.34	-3.12	93.8280

COMMODITIES (US$)†	Change (%) 1 Mth	YTD	1 Yr	Price
Gold Spot ($/oz)	-3.24	3.66	-9.96	1,249.73
Oil WTI ($/barrel)	2.98	4.36	11.68	102.71
Natural Gas ($/MMBtu)	-5.67	7.38	14.01	4.54

† As at May 31, 2014. Souce: Bloomberg.
‡ The DEX 60 Day T-Bill Index is now referred to as FTSE TMX Canada 60 Day T-Bill Index. The DEX Universe Bond Index is now referred to as FTSE TMX Canada Universe Bond Index.

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Are you a better driver?

How would you respond to a survey that asked if you considered yourself an above-average driver? In a classic Swedish study*, 93% of drivers surveyed believed that they had an edge over other drivers and were better than average - a clear sign of overconfidence.

In studying investor psychology, overconfidence is an emotional bias that's particularly acute during periods of strong market gains. Investors can become overconfident by reflecting on a past investing success, such as a well-timed purchase, and overestimate the probability of the same result occurring the next time they invest. Overconfidence can also cause an investor who did very well in an investment to put all of their eggs into one basket. When coupled with excessive risk-taking, an overly-optimistic investor may suffer from underperformance and a higher probability of losses.

It is natural to feel good when something goes well and to feel less happy when it doesn't go so well. Overconfidence is attributing the good results to your own skill and the lesser results to bad luck or other external factors. This type of optimistic thinking can lead to increased trading and subsequent poor performance.

Recognizing the signs of overconfidence is the first step to not falling into that mindset. Working closely with your advisor can help you to stay focused on achieving your financial goals while avoiding the pitfalls of emotional biases.

*Svenson, Ola. *Are we all less risky and more skillful than our fellow drivers?* March 1980.

Did you know? Investor Psychology, a branch of behavioural finance, is the study of how psychology influences investor behaviour and the subsequent effect on markets. Where traditional economics focuses on how investors *should* behave, behavioural finance looks at how investors *actually* behave.

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