

August in Review

Investors experienced a particularly rocky month in August, as a steep market decline in China spurred investors to reduce their exposure to other markets globally. Although selling pressure was often intense, it eased during the month, allowing most markets time to recover much of their losses – rewarding those who stayed invested. By month end, Canadian equities closed lower by -4.04%, U.S. equities retreated -4.79% and global equities fell -5.33%.

China dragged global equity markets lower. Once a major driver of global economic growth, the world's second-largest economy faltered in August. After seeing signs of recovery earlier in the summer, the main stock market fell considerably, impacting markets worldwide. For the fifth time since November, China's central bank, the People's Bank of China (PBoC), took action by lowering interest rates, devaluing its currency and urging banks to lend more to consumers. The Bank's actions did help to shore up investor confidence by month end, both locally and globally. The health of the Chinese economy is very important to the global economy, as China is one of the largest buyers of goods and services produced globally.

The U.S. economy continued to show strength despite market ups and downs. The U.S. is the strongest performing major developed economy worldwide. The country experienced growth of 3.7% in the second quarter – surpassing expectations. With a robust U.S. economy and a weak Canadian dollar, goods manufactured in Canada become much cheaper to American customers, potentially giving Canada's export sector a jump start. Despite the promising economic growth, the U.S. was unable to escape the market volatility seen throughout the month. In fact, U.S. equities experienced both the worst day in four years and the biggest two-day gain since the financial crisis in short succession. Aside from China's woes, uncertainty was driven by the potential for an interest rate hike in September.

Canadian equities fell in unison with the global sell off, and a continued drop in the price of crude oil also took its toll. The combination of these events was a catalyst for the surge in market volatility, which spiked past highs set earlier this year, when the Greek crisis became headline news. Economic data showed that the Canadian economy slowed for a fifth consecutive month. With oil producers laying off their workforces and reducing investments, the effects have rippled into other sectors of the economy which may have indirect exposure to the oil patch.

INDEX (C\$) [†]	1 Mth	Change (%)		Index Level
		YTD	1 Yr	
Treasury Bill (FTSE TMX Canada 60 Day T-Bill)	0.04	0.48	0.79	158
Bonds (FTSE TMX Canada Universe Bond)	-1.00	2.80	4.91	988
Canadian Equities (S&P/TSX Composite)	-4.04	-3.47	-8.68	13,859
U.S. Equities (S&P 500)	-4.79	10.47	22.19	2,606
Global Equities (MSCI World)	-5.33	11.45	17.32	2,174
Emerging Markets (MSCI Emerging Markets)	-7.81	-0.67	-5.97	1,082

CURRENCIES [†]	1 Mth	Change (%)		Exchange Rate
		YTD	1 Yr	
C\$/US\$	-0.41	-11.56	-17.21	0.76
C\$/Euro	-2.40	-4.56	-3.03	0.68
C\$/Pound	1.39	-10.23	-10.46	0.50
C\$/Yen	-2.52	-10.47	-3.59	92.26

COMMODITIES (US\$) [†]	1 Mth	Change (%)		Price
		YTD	1 Yr	
Gold Spot (\$/oz)	3.42	-4.60	-12.39	1,132.50
Oil WTI (\$/barrel)	3.51	-15.36	-46.56	49.20
Natural Gas (\$/MMBtu)	-2.18	-11.49	-31.96	2.69

[†]As at August 31, 2015. Source: Bloomberg

Did you know?

Statistics Canada reported that Canadian GDP contracted for a second consecutive quarter, putting Canada into a technical recession for the first half of the year – the first time since 2009. Economic output shrunk -0.8% in the first quarter, and -0.5% in the second quarter.

Emotional Investing

Recent market volatility is a reminder of the perils of emotional investing and the importance of maintaining a long-term perspective. There are many occasions in life when following your emotions is rewarded – but investing is rarely one of them.

The notion of investing without volatility is as illusory as trying to drive a car without an engine. Like it or not, the two concepts invariably go hand-in-hand, but does that mean you should avoid volatility – and investing – altogether? Market uncertainty can naturally cause panic and lead to poor investment decisions. But by recognizing short-term market uncertainty for what it is, you can help ensure that it doesn't derail your long-term financial plan.

Investors generally feel a financial loss about two and a half times more than a gain of the same magnitude.*

Understandably, many of us experience a roller coaster of emotions when investing, which can translate into poor buy and sell decisions (see figure 1).

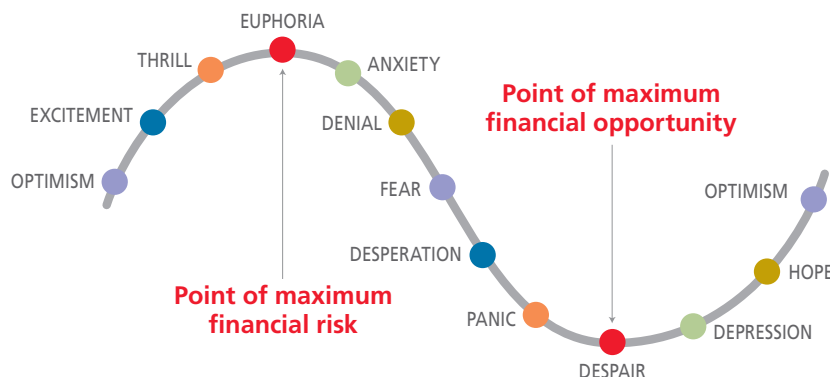
Keep calm and carry on

When the temptation to head for the exit takes hold, ask yourself if the events fuelling the latest downturn change your long-term goals. Odds are they don't. Try thinking of it this way – if you experienced turbulence on a flight would you don a parachute and pull the ripcord or would you take a breath, wait for the turbulence to subside and continue on to your destination?

Whether you're feeling more optimistic or cautious about investment opportunities today, your Scotiabank Advisor can help you to stay focused on reaching your long-term goals.

Cycle of Market Emotions

figure 1



*Daniel Kahneman and Amos Tversky, "Prospect Theory: An Analysis of Decisions Under Risk", *Econometrica*, 47,2, pp. 263–91.

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