



January 4, 2019 Communique Volatility: Friend or Foe? UPDATE

On November 22, 2018 we published a communique titled *“Volatility: Friend or Foe”*. The communique featured a chart on the S&P 500 showing annual returns as well as annual intra-year drawdowns (i.e. how much the stock market went down at some point during that year).

Many clients asked if we can provide a similar analysis on the S&P/TSX Composite Index, so we have produced the Canadian version and updated the US version for the period ended December 31, 2018.

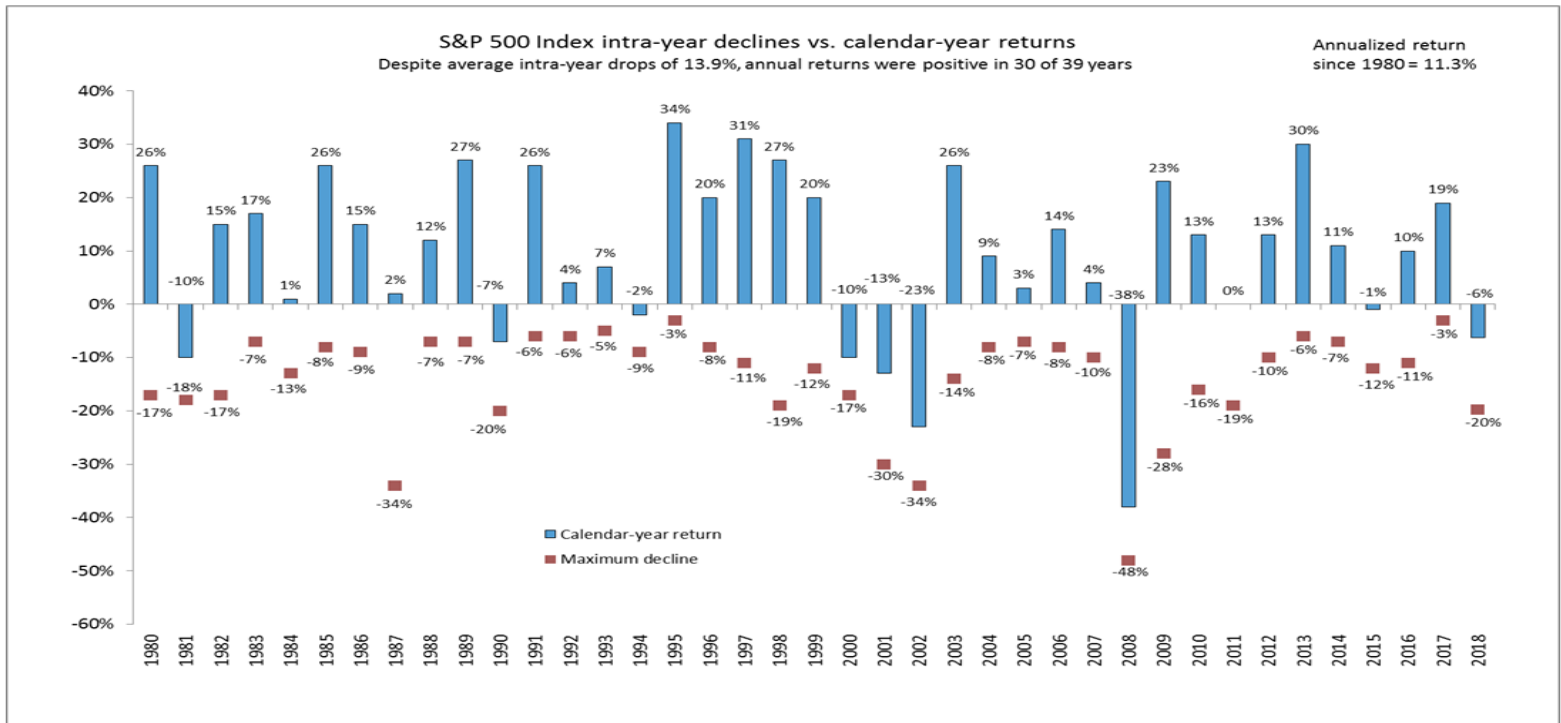
There are a number of observations that can be made on both charts but the prevailing theme is that volatility is normal and is to be expected.

The observed average intra-year price decline on the S&P500 between Jan 1st, 1980 and Dec 31st, 2018 is 13.9%. The corresponding average price decline over the same time period on the S&P/TSX is 15.8%.

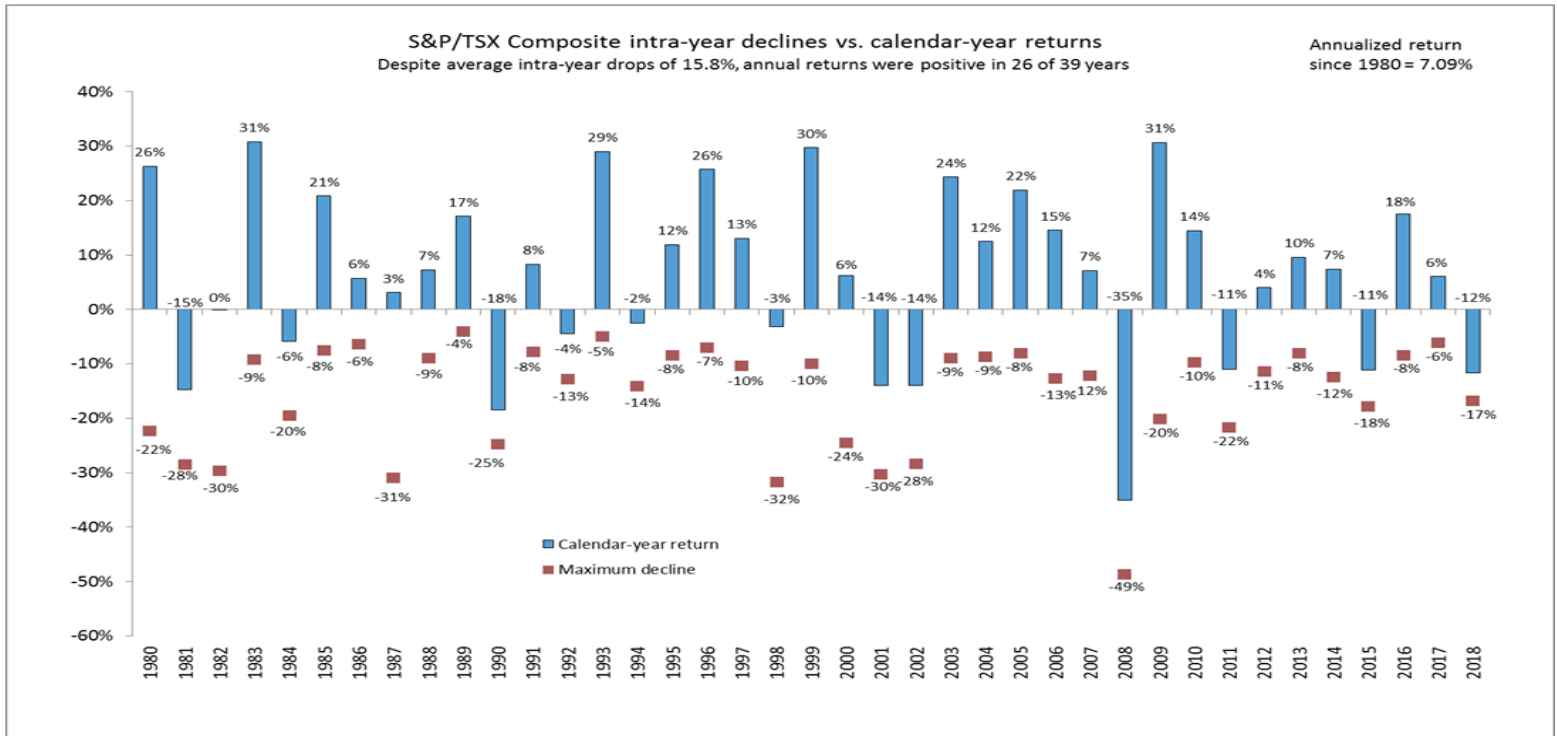
A second observation is simply that markets go up over time. There are far more positive return years than negative. The 39-year compound annual return on the S&P 500 is 11.3% while the S&P/TSX has compounded annually at 7.09%. Both of these compound numbers are inclusive of the negative 13.9% and negative 15.8% respective intra year drawdowns.

A third observed phenomenon is that it is far more common for the markets to experience a positive year directly following a negative year rather than continuing to trend negatively.

Please refer to more information on the *Volatility: Friend or Foe* topic by re-reading our November 22, 2018 communique that is posted on our website at bakerfinancialgroup.ca.



Source: Bloomberg LP. As at December 31, 2018. Returns based on price index only, excludes dividends and in US\$. Maximum decline is the largest intra-year market drop from a peak-to-trough during the calendar year. Annualized return includes reinvestment of dividends. The S&P 500 Index is a broad-based market-capitalization-weighted index of 500 of the largest and most widely held U.S. stocks.



Source: Bloomberg LP. As at December 31, 2018. Returns based on price index only, excludes dividends and in CAD\$. Maximum decline is the largest intra-year market drop from a peak-to-trough during the calendar year. Annualized return includes reinvestment of dividends. S&P/TSX Composite is a broad-based market-capitalization-weighted index of 250 of the largest and most widely held Canadian stocks.

On behalf of CIBC Wood Gundy Baker Financial Group, we wish you the best of health and prosperity for the new year.

We continue to work hard every day to be worthy of your trust.

Most sincerely,

CIBC Wood Gundy
Baker Financial Group

Bryan Baker

Jonathan Baker

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