HILLSIDE WEALTH MANAGEMENT | HollisWealth®

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RRSP and TFSA Reminders

Important reminders about the 2018 RRSP deadline and the 2019 TFSA contribution limit

This is our first issue of our *Informed Investor* newsletter in 2019. We are going to allocate most of the content in this newsletter towards the model performance of 2018, but we do have a few housekeeping items on the planning front that need to be addressed.

The first is a reminder that the **RRSP deadline** for 2018 is **March 1 2019**. Please refer to the notice of assessment for income tax purposes, tax year 2017, to get your available RRSP contribution room.

Second, the **TFSA contribution limit** has increased to $6,000 for 2019. Contributions can be made anytime, there is no deadline to concern ourselves with for TFSA contributions. Like RRSPs, you can top up previously unused TFSA contribution room. If someone has resided in Canada since 2009, and they were at least 18 years of age at that point, and they haven't made a TFSA contribution since then, they would be eligible to make a $63,500 TFSA contribution for 2019. It's important to note that you can use virtually any investment vehicle you like in your TFSA; stocks, bonds, etfs or mutual funds are fair game. We still see TFSAs used to hold short term investments, say a high interest savings account; TFSAs are much better suited to hold investments that are being used to fund long term goals.

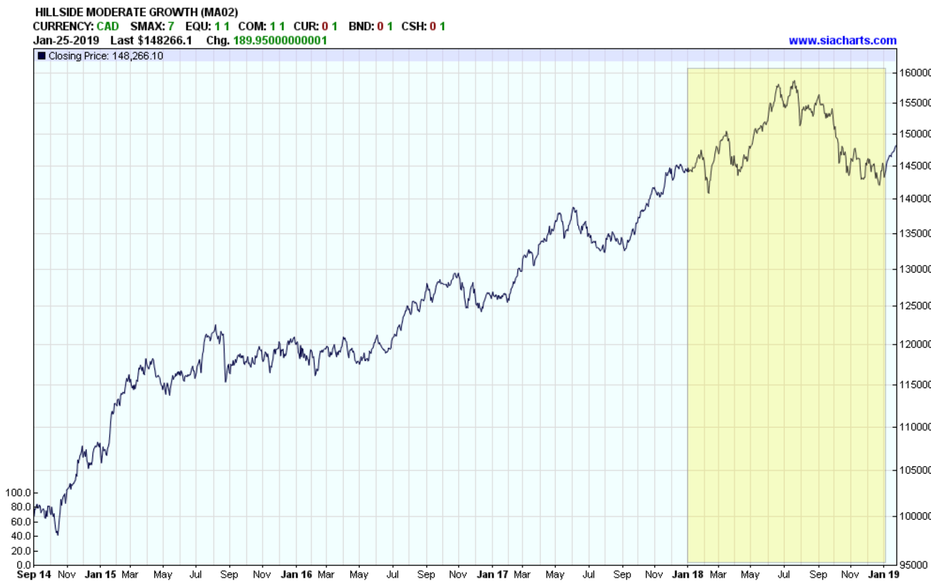
If you have any questions about how to handle this year's RRSP or TFSA contributions, please let us know.

Portfolio Update

This issue's Portfolio Update provides a detailed look at 2018 performance

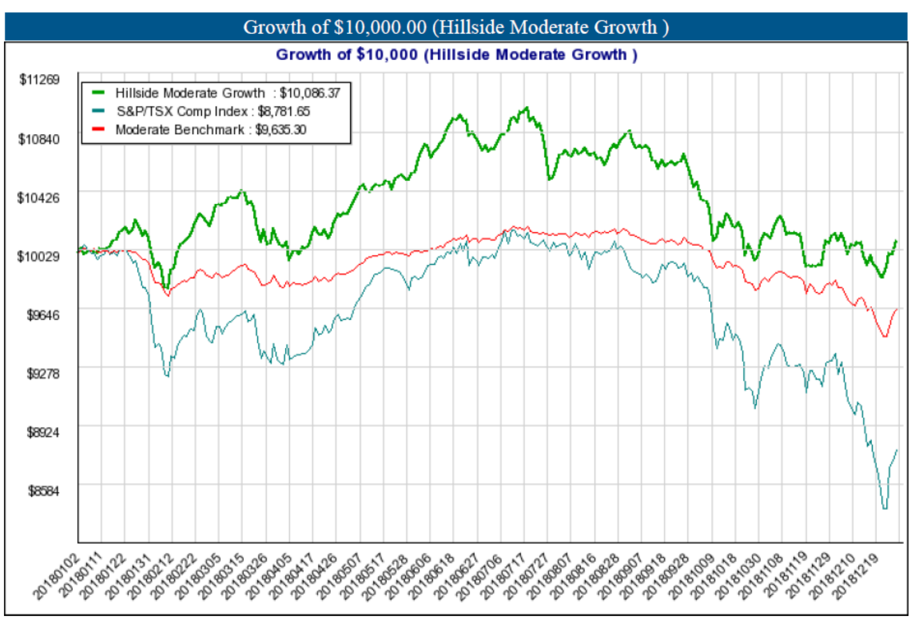
The end of 2018 saw a marked increase in volatility in the markets with risk assets particularly taking it on the chin. Given it's been two months since we wrote our last newsletter and we wish to provide an in-depth assessment of our 2018 performance, this newsletter will read longer than usual. When referencing performance and asset allocation figures, we will be looking at the "Hillside Moderate Growth" portfolio unless otherwise specified. This portfolio hosts the bulk of our client wealth (66%) and sits between the "Income & Growth" & "Growth" portfolios in terms of objectives, risk and asset allocation.

For lack of a better term, 2018 was a ‘round tripper’ for us. Below is a chart showing our performance since inception (Sept 2014) to Jan 26, 2019. 2018 is highlighted in yellow.



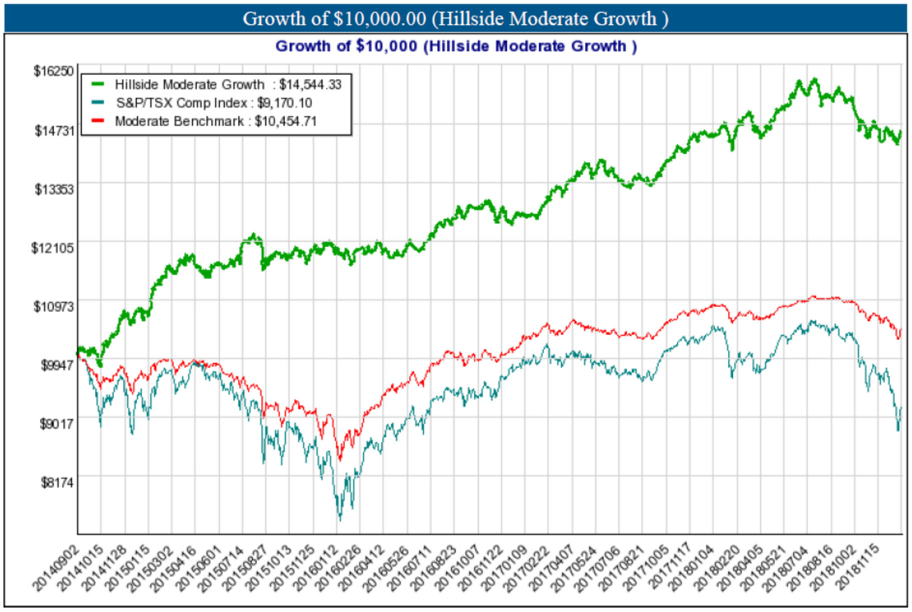
Source: www.siacharts.com

We finished the year up 0.77% gross of fees which effectively means we were down slightly on the year net of fees. While this isn’t ideal, we note that every asset class, with the exception of cash, was down for the year. It also compares favourably with the TSX and our benchmark which dropped -12.19% and -3.65% respectively. How were we able to sidestep the bulk of the drop in 2018? Two reasons: Kirkland Lake Gold and US cash. Kirkland Lake was the number one returning stock on the TSX in 2018 advancing 85% while the USD was up 7% in CAD terms. We can see the comparative results in the chart below:



Source: www.siacharts.com

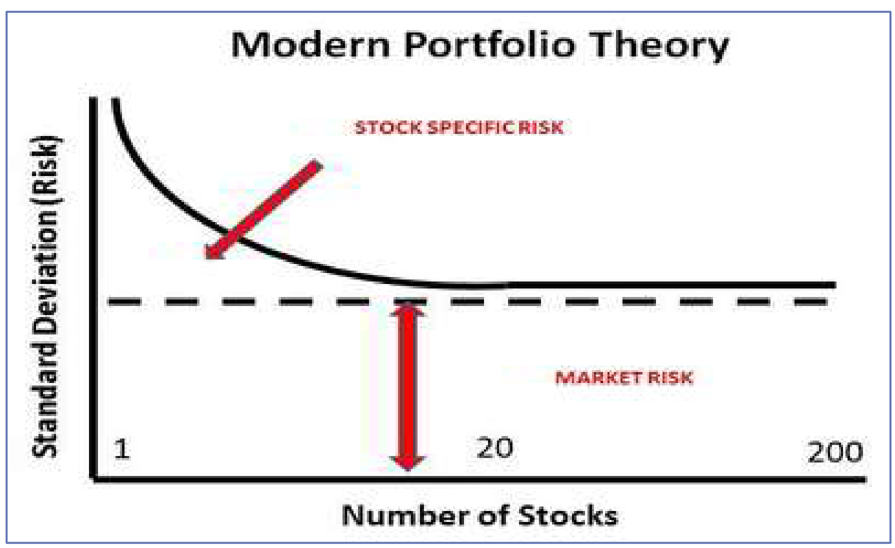
Longer term the outperformance is even starker:



Source: www.siacharts.com

As our readers and clients know, we are agnostic as to the direction of asset classes. Over the long term, we want to own a concentration of companies with above average profit metrics that have a strong history and future of growing shareholder wealth. In the Hillside Moderate Growth Model, we are limited to owning no more than 70% equities. When we are at or close to this figure one can imagine we are emphasizing ‘offence’ with the primary goal to increase our clients’ wealth. When we are materially below this weighting (as we are now) one can conceptualize that we are emphasizing ‘defense’ with the primary goal to preserve our clients’ wealth. In a perfect world we’d love to be on offence all the time, but we accept that nothing goes up in a straight line and that there will be periods when markets drop.

We have a strict stop loss discipline that is worth addressing in depth. When we first began employing our process in 2014 we knew there were blind spots in our process which we sought to hedge against. The first being our concentrated approach. We have gone over why we want to hold 15-25 companies at any given time, rather than hundreds or thousands like mutual funds or ETFs. In short, 96% of stock specific risk is diversified away by the time you add the 20th position to a portfolio. This can be seen in one of our favourite charts at right:



Source: www.Investopedia.com

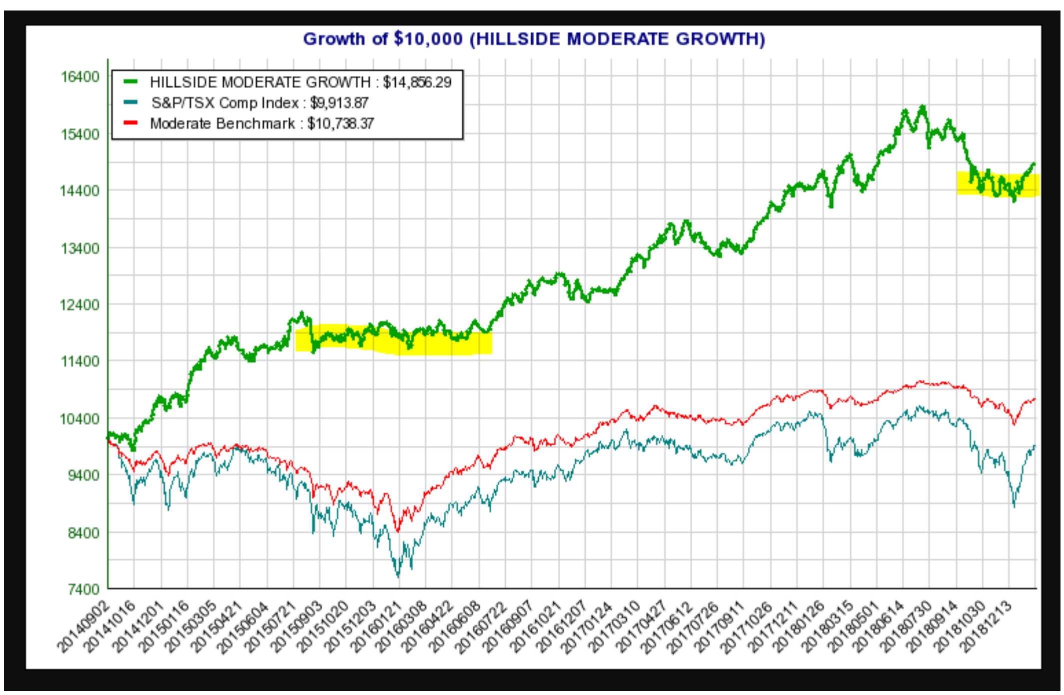
While we are convinced that holding fewer high-quality positions will reward our investors over the long term, it is a simple fact that we will encounter positions that will potentially have a dramatic negative impact on our performance. An equally weighted 20 stock portfolio with one stock going to 0 means the entire portfolio will be down 5%. An equally weighted 100 stock portfolio with one stock going to 0 means the entire portfolio will only drop 1%.

In addition to this risk, we have had two equity market drops of over 50% in the past 20 years (2001 & 2008). It is our opinion that the problems we encountered in 2008 were not solved, but rather swept under the carpet to be dealt with at a future date. After identifying these risks, we sat down and decided the best way to protect against the risks noted above was to employ a strict stop loss rule whereby we'd have two prices levels for everything we own. If the first level is breached, we'll sell 50% of the position; if the second level is breached we'll sell the rest.

In the nearly 5 years since we've been executing our strategy, there have been 3-4 times when these stops were triggered; the 4th quarter of 2018 was the busiest we'd ever been managing the downside protection plan. In a generally rising market our stop loss rule will be a drag on performance while in a falling market our stop loss rule will enhance performance. In a rising market, we are looking to sidestep landmines (Valeant, Concordia etc.), but accept that from time to time we will get stopped out of stocks that keep rising (CSU, MA, FB etc.) which may necessitate buying them back. No system is perfect and at times this process will make us look brilliant while at other times we will look silly. I would suggest that in terms of sidestepping positions that have gone down dramatically we have a very good track record. VRX and CXR both fell over 90% from their highs in 2015 and we made money on VRX and lost a small amount on CXR.

In terms of sidestepping major drawdowns in the equity markets, the jury is still out, but during significant bouts of market volatility, August 2015-February 2016 and October 2018 to present, the results were encouraging, as illustrated in the chart at right.

In other words, had either of those periods been the beginning of the next significant drawdown (the current stretch may still prove to be), then the strategy would've fulfilled, or is fulfilling, it's purpose.



Source: www.siacharts.com

Below is a table demonstrating our beginning of year 2018 & 2019 allocations:

Hillside Moderate	CAD Equity	US Equity	Bonds	Cash
Jan 1 2018	43%	22%	23%	12%
Jan 1 2019	29%	14%	21%	36%

Source: Hillside Wealth

I'm sure the pressing question on everyone's mind is: when do we get back in? In a generally rising market, our answer and action has been to re-buy positions we've been stopped out of when they show meaningful relative strength and/or take out previous highs. As an example, we sold and bought back MA, FB and CSU in 2015. If the current downturn is a 'normal, run of the mill' correction then we will likely buy back our stopped-out positions at higher prices than we sold them at. Inevitably in these scenarios, we would've been better off doing nothing, or buying more of the positions at the lower prices. If, however, this is a prolonged downturn that has only begun in magnitude, which needless to say is the scenario that could have the biggest negative effect and the one we are working to protect ourselves from, our strategy will deliver the intended results. We have written extensively over the years about why we are concerned about the current state of the financial world. In short, we have a very indebted society that has brought forward future consumption at an unprecedented rate. We find ourselves in a situation where the central banks of the world control the price and quantity of money and this is having an outsized effect on the pricing of all assets. We note that 11 of the last 13 recessions began on the backs of central banks raising interest rates; the Federal reserve has raised rates 9 times since 2015 and the bank of Canada has done so 5 times during the same period. Most recessions have been preceded by an inverted yield curve, when long dated bonds pay less than short term bond, which took place in December 2018. The last time the yield curve inverted was 2006. We also note that most of the economists and portfolio managers who correctly predicted the 2008 downturn (there were but a handful) are all flashing warning signs. At this point in time, we feel that having a defensive component as part of our overall strategy is prudent.

We continue to screen the market for attractive companies that meet our strict criteria. We continue to update our models for each of these companies on a quarterly basis. Should the current volatility stabilize, we will happily increase our exposure. Should the situation deteriorate further, we'll decrease exposure to the equity component of the portfolio.

In short, 2018 was a difficult year and we are pleased with the way our process handled this challenging environment. Regardless of what 2019 has to offer, we look forward to continuing the journey and working hard for our clients.

Did You Know?

Keep an eye on this section for news and tips

Did you know you can **make an RSP or TFSA contribution directly to your HollisWealth account through online banking**? For more information on this convenient and safe option, contact [Heidi] to find out more.

In The News

Catch up on some of our latest articles and interviews.

Jason Del Vicario was a guest on the January 21, 2019 episode of BNN's Market Call Tonight where he discussed his top picks and answered viewer questions on North American Growth Stocks.

January Performance Results

An overview of our three portfolios to date.

Performance to January 31st 2019	YTD	1 Mo	6 Mo	1 Yr	3 Yr**	Inception**	Added Value vs. Benchmark**
Hillside Moderate Growth*	**2.53%**	**2.53%**	**-1.67%**	**1.91%**	**7.71%**	**9.47%**	**+7.97%**
MG Benchmark[1]	*2.96%*	*2.96%*	*-2.13%*	*-0.46%*	*7.06%*	*1.68%*	
Hillside Growth*	**6.14%**	**6.14%**	**-5.77%**	**-3.15%**	**8.02%**	**8.4%**	**+3.31%**
HG Benchmark[2]	*5.1%*	*5.1%*	*-2.16%*	*1.9%*	*11.3%*	*5.09%*	
Hillside Income and Growth*	**1.31%**	**1.31%**	**-1.25%**	**1.76%**	**5.66%**	**6.78%**	**+5.56%**
IG Benchmark[3]	*2.66%*	*2.66%*	*-1.86%*	*-0.69%*	*4.08%*	*1.22%*	

Past performance is not an indication of future returns.
** Performance is presented gross of fees.*
***Inception: Sept 2, 2014. Results beyond 1 year are annualized.*
[1] MG Benchmark: 30% TSX | 35% Universe Bond | 20% S&P Pref | 15% TSX Small Cap
[2] HG Benchmark: 50% TSX | 25% S&P500 | 25% TSX Small Cap
[3] IG Benchmark: 25% TSX | 55% Universe Bond | 20% S&P Pref
Source: SIACharts.com

The performance presented in this portfolio report is hypothetical and does not represent a specific client account. Details regarding actual returns of an investment account are available from the client's advisor.

Performance is calculated using month-end market values of the model portfolio. Since we use a model portfolio to calculate performance there are no client-initiated cash flows (deposits/withdrawals) to account for. Performance is calculated by dividing the change in the model portfolio's market value by the model portfolio's market value at the beginning of the performance period. Also, all income generated by the portfolio's holdings are held within the model portfolio in cash and is accounted for in the portfolio's month-end market value - this results in a total return measure of the model's performance.

Returns for periods less than 1 year are shown as periodic returns while returns for periods greater than 1 year are annualized. Returns do not include fees and actual returns experienced by an investor may differ from those shown. Past performance is not a guarantee of future results.