Market Watch Weekly

Issue 16 Friday, April 21st, 2017

There has been a lot of talk lately surrounding active versus passive management, and this week we saw a survey that noted only 17% of active managers in Canada produced returns above their relative benchmarks in 2016. We are very happy to say that we were one of them.

There are two sides to delivering active management outperformance; return and risk. Return is the easier of the two to evaluate. You simply look at how your portfolio manager performed for you. Risk on the other hand is a bit trickier.

To visualize this two sided coin, let's turn to the NHL (seems appropriate now that we are in the playoffs). Return is akin to points per season. Seems simple enough, you just look at the stats on who scored the most. Pretty easy to say Wayne Gretzky leads this category all-time with 212 points in his 1981-82 season (i.e. gains or return). Risk management is akin to plus/minus per season. Who was on the ice scoring points while at the same time preventing points against (i.e. losses or risk). Again, simply looking at the stats, Bobby Orr leads this category with a +124 in his 1970–71 season.

For the record, Gretzky had a plus minus of +81, while Orr put up 139 points in both of their respective best seasons. Point being that arguably the two best players ever to play the game didn't just give their team great offense or great defense, but more importantly both provided strong returns with effective risk management. True active management is no different.

Now let's turn back to how this relates to active portfolio management. For the purpose of the remainder of this commentary we will focus on the more opaque definition of risk / risk management.

Risk and risk management are all about relative benchmarks. Where this becomes opaque is most investors don't understand their benchmark. Your benchmark IS NOT the S&P TSX. Your benchmark is a custom measure specific to you derived from your investment plan as defined by your investment policy statement. It is different than your neighbour's and certainly different than the TSX.

For example, if you are in or nearing retirement, your portfolio's primary purpose is probably to maintain capital that provides you with a monthly income. However, for those earlier in their career, the purpose of your portfolio is most likely to provide you with growth to get you to retirement. So your benchmark in reality is defined as "Am I on track to achieve what I need to achieve?" If you only need 6% to achieve your goals, are you really managing your risk appropriately by trying to reach for 12% or more to beat some arbitrary index? Or in hockey terms, why do you have Gretzky on the ice when you should really have Bobby Orr, or vice versa?

Passive portfolio management comes in a variety of shapes and sizes, with the most common being the ubiquitous 2/3 equity and 1/3 fixed income. The problem with this traditional balance is that it does not manage risk in response to changing economic or market conditions. We define active portfolio management as one that focuses on diversifying your risk first, then creating a structurally diverse portfolio that creates potential to thrive under any economic regime.

Erik Dekker, BBA, CIM
VP, Sr. Investment Advisor &
Portfolio Manager

Mark Hewett, P. Eng., CIM, FCSI
VP, Sr. Investment Advisor &
Portfolio Manager

Erik Benson, BA
Investment Advisor &
Portfolio Manager

Alan Berge, CFA, AIF
Investment Advisor &
Portfolio Manager

Alix Rogers
Investment Advisor Assistant

Massimo Beltramo
Business Development Associate

David MacLachan
Business Development Associate

Canaccord Genuity
Wealth Management
P.O. Box 10337
2200 - 609 Granville Street
Vancouver, BC V7Y 1H2

T: 604.643.0285
F: 604.601.5966
TF: 1.800.663.1899

E: dghinfo@canaccord.com

www.dekkerhewettgroup.com

According to a study by Global Financial data and CSI (as provided to us by Resolve Asset Management) the passive 2/3 equity 1/3 fixed income portfolio delivered the same risk to your capital as holding 94% equity and 6% cash. So in reality, the passive investor unknowingly dangerously overexposes themselves to equity risk. To us, that is not balance and it certainly is not managing your risk against potential loss.

Utilizing an active management philosophy that is risk centric helps build portfolios where each asset class contributes the right amount of risk specific to the benchmark you need. Sometimes that means holding higher levels of cash as you wait for the next opportunity, and sometimes it means being fully invested.

While active management might not beat some arbitrary index number each year (which really doesn't matter unless all you care about is keeping up with the Jones'), it is truly the only way to ensure that you and your family get to where you need to be without taking on unnecessary risk.

Thank you for reading our Market Watch Weekly, and enjoy the weekend with friends and family.

Sincerely,
Dekker Hewett Group

Thank You for your support.

As many of you know our own Alix Rogers is "Sleeping Out" in support of Covenant House.

On May 4th, Covenant House is challenging mothers to sleep on the street for one night, with just a sleeping bag and a piece of cardboard, to show homeless youth that we care. But it is not about pretending to be homeless. It is about showing a group of young people that they are worthy of unconditional love and absolute respect, and proving that we care enough about them to be uncomfortable for one night; to be vulnerable so they can be safe. This year our own Alix Rogers has taken up this challenge and will be sleeping on the street May 4th to support those who need it.

To support Alix, click the link http://support.covenanthousebc.org/goto/AlixRogers as she "Sleeps Out" with others to show homeless youth they are not alone.

TODAY'S STOCK WATCH

S&P/ TSX Composite	15,614
Dow Jones Indus. Avg.	20,547
S&P 500	2,348
Canadian/US Dollar	$0.7406
US/Canadian Dollar	$1.3503
Euro / Canadian	$1.4456
Gold	$1286.30
Silver	$17.92
Copper	$2.55
Brent Crude Oil	$51.85
WTI Crude Oil	$49.50
Natural Gas	$3.20

*As of 1:00PM on Friday, April 21st

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