

After a shaky early start to the year 2016 with a drop approximating 10%, North American stock markets recovered their composure and spent most of the year hovering in a rather narrow trading range established during 2015. Then the year ended in rather dramatic fashion with strong gains that took most market observers by surprise. The upward move was triggered by the unexpected win by underdog presidential candidate Donald Trump. This victory, accompanied by a Republican sweep of Congress, the House of Representatives and two thirds of state governorships signalled major policy change going forward. Specific details are impossible to predict but there is little doubt that a more business friendly environment with less regulation will now come into play. The agenda for social and environmental change will receive less emphasis going forward.

In North America, priced in native currency the TSX Composite Index (+21.1% TR) outperformed the larger SP500 Index (+12.0%). However, with an 8.6% weighting in the index



contributing over 25% of the TSX performance, mining stocks were a large part of the outperformance (see chart 1 to the right).

Taken as a whole, 2016 will go into the history books as a continuation of the bull market that has prevailed since early 2009. Bull market is defined as an upward trajectory unbroken by a setback of 20% or more. The current longevity of eight years and counting distinguishes this bull market as the second longest in over 100 years. Should we be concerned about this? Yes, but not in any tangible, actionable way. Firstly, it is a certainty that we will eventually have an overall market correction of 20% or more. The problem is we have no way of knowing when that will happen or from what level. As a point of reference, the longest bull market lasted close to 12 years throughout the 1990's, 50% longer than the current experience.

Also, various sectors and businesses are affected quite differently by general market behavior. We will leave to others the futile obsession with trying to divine future macro trends. The characteristics and valuations of individual businesses are far more useful for long-term investing.

We are pleased to note that our portfolio performed very satisfactorily during the past quarter and throughout 2016. Not much adjustment has been required to accommodate the changes in circumstances that the year has unveiled. This should be expected since investments chosen for their superior long-term attributes should not become much more or less attractive in response to short term external trends.

## OUTLOOK

As we move into 2017 there are a number of evolving trends that will bear careful watching. These could have profound and unexpected effects on finance and investment as the year unfolds.

First and foremost among these are interest rates and the pricing of fixed income instruments. These have suffered perhaps the most dramatic impact of the events of late 2016. If, in fact, there is a continued move away from the artificially low interest rates experienced globally during the past several years, the ripple effects will be far reaching and potentially of major proportions.

Another source of uncertainty is China. China is large and opaque, with many fiscal and financial imbalances that have so far been managed and contained to prevent spreading loss of control. But the potential exists and should not be underestimated.

And finally among the top worries is Europe. Now that Brexit and the unexpected election of Donald Trump have reinforced the rise of the populism, Europe faces many unsettling concerns in 2017. Their fragile political union will be severely tested and could lead to major financial implications.

In the face of these concerns, we will continue to put our faith in the businesses and management teams that have seen us through in good form so far. Exposure to visible and controllable risks will be minimalized while we closely monitor the progress and market expectations of our specific corporate investments.

We are confident in the ability of these companies to adjust and adapt in order to take advantage of opportunities that may arise and continue to prosper in the long run.

*The Laurus Investment Team*