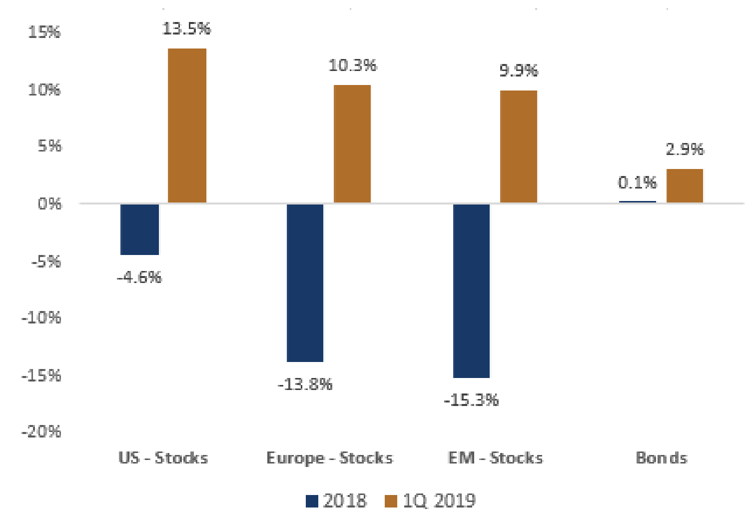
Redemption

*"It's not how far you fall, but how high you bounce that counts." – **Zig Ziglar***

As we write this letter and reflect back on the past few weeks, the word that keeps coming to mind is **REDEMPTION**. Just like the Virginia Cavaliers basketball team in the National Championship and Tiger Woods at The Masters, the market has had the ultimate bounce back story: falling 20% the last few months of 2018 to up over 16% for the year as of the writing of this letter.

Major Asset Class Total Return

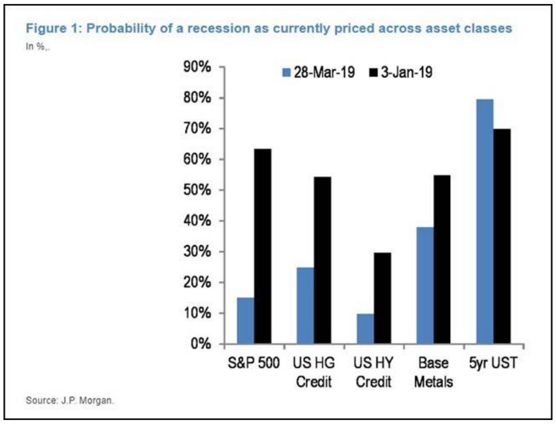


Just about every major asset class lost money last year, but this year has seen a sharp reversal. Whipsaw's like this can cause a lot confusion for investors as they figure out how to interpret the drastic movements. The inability to get convicted one way or another creates complacency in the market. Trading volumes have hit year to date lows as investors contemplate their next move. It's tough to sell at this point with market momentum continuing upwards, but it's also tough to buy with the market having rebounded so quickly and approaching the all-time highs hit last October. Another reason for the complacency amongst investors is that the market and economy are giving conflicting signals, making it tough to be convicted one way or another:

- **Debt Loads**, for both individual and corporations, are reaching scary levels, which will make it hard for the Fed to raise rates. Low rates and falling rates have traditionally been a tailwind for stocks.
- This has been one of the longest **economic expansions** ever, which could signal that it's coming close to an end. However, there may still be room to run because this has been one of the weakest recoveries on record. The weak recovery has kept rates low, which has fueled investment growth and this recipe may continue moving forward.
- We seem to get close to a **trade deal** every month, but end up walking away with the same result – the headlines of the WSJ are evidence of this:
  - December 2018: U.S., CHINA CLOSES IN ON TRADE DEAL. Source: WSJ
  - January 2019: U.S., CHINA CLOSES IN ON TRADE DEAL. Source: WSJ
  - February 2019: U.S., CHINA CLOSES IN ON TRADE DEAL. Source: WSJ
  - March 2019: U.S., CHINA CLOSES IN ON TRADE DEAL. Source: WSJ

1401 EAST CARY STREET, SUITE 401 RICHMOND, VIRGINIA 23219 | www.canalcapitalmanagement.com | T +1 804.325.1450 | F +1 866.381.5362

- One of the most predictive forecasts of a **recession** has been the inverted yield curve. There are a number of different time frames that can be used when analyzing the yield curve, but no matter how you currently measure it, it's either inverted or close to it. Despite this recessionary signal flashing warning signs, the probability of a recession as priced into stocks, has gone the complete opposite way (See chart).



- The **Tax Act** was an overall net positive for the stock market and the economy, but one of the things that wasn't considered is the fact that the average refund will most likely diminish by as much as 9% because of inadequate withholding. Families depend on this windfall to pay down debt and major purchases.
- There's seemingly nowhere to hide in this market. While we may be in the later stages of a bull market, investors are struggling to find where else to put their money. Bonds look less attractive with low and possibly rising rates and rating agencies are adding to the ugliness by signaling warnings about many of the popular bond funds that have seen record inflows. To help them achieve higher yields and better returns, many of these funds have taken on more risk to do so.

While the signals may be conflicted on what to do from here, investors should celebrate the redemption and bounce back of the market by exercising caution from this point forward. What we do know is that the risks initially associated with the steep decline in 2018 are still very much there despite the recent turnaround, and until we have a clear signal telling us otherwise, we will remain with a more defensive posture. After all, it was the defense by Virginia and the safe play by Tiger Woods that won them championships.

As we continue to better serve our clients, if you would like to change how you are receiving these statements, mailed vs. emailed, let us know by either emailing or calling us, 804-325-1450.

Thanks for reading and as always, please don't hesitate to contact us with any changes to your personal situation, investment goals or risk tolerance.

Sincerely,

Canal Capital Management

DISCLOSURE: Canal Capital Management's opinions are subject to change from time to time and do not constitute a recommendation to purchase or sell any security nor engage in any type of investment strategy. The information contained herein has been obtained from sources believed to be reliable and cannot be guaranteed for accuracy.

1401 EAST CARY STREET, SUITE 401 RICHMOND, VIRGINIA 23219 | www.canalcapitalmanagement.com | T +1 804.325.1450 | F +1 866.381.5362