

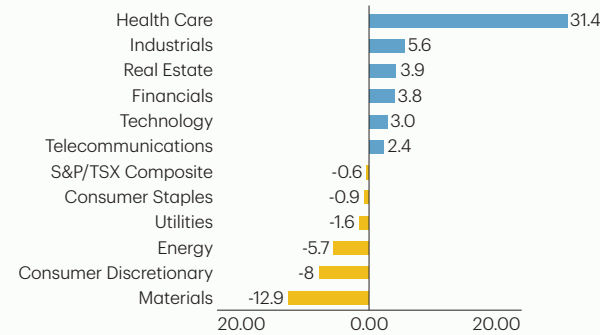
Q3/2018 Quarterly Market Review



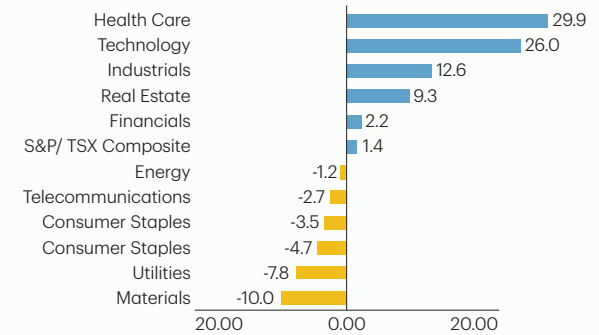
Equity and Fixed Income Markets

- The Canadian equity markets generated a negative return of .57% for the quarter which reduced the YTD return to 1.3%. Health care was the significant outperforming sector with a 31% return on the strength of marijuana stocks. The Canadian equity market has spent the year struggling for direction and has been anemic at best. Solid dividend yields keep us somewhat anchored to this market.
- U.S. equities continued to power ahead in spite of escalating trade wars as the S&P 500 returned 6% in CDN\$ equivalent. All 11 sectors in the S&P 500 had positive returns with health care and technology leading the way. Company earnings continue their upside surprises which should be supportive of equity prices and valuations for the next couple of quarters.
- On the International front, most markets were mixed with Japanese equities being a strong outperformer on a weakening Yen. Britain and German markets lost ground in the quarter.
- Fixed income continues to struggle in the face of rising interest rates. Canadian corporate bonds lost .46% in Q3. Preferred shares had a marginal gain in the quarter, but are still negative 1.17% YTD.

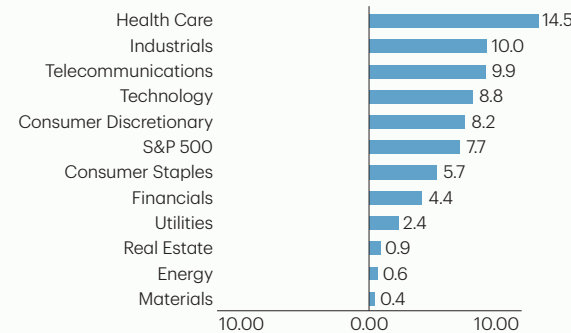
Q3/18 S&P/TSX Sector Returns



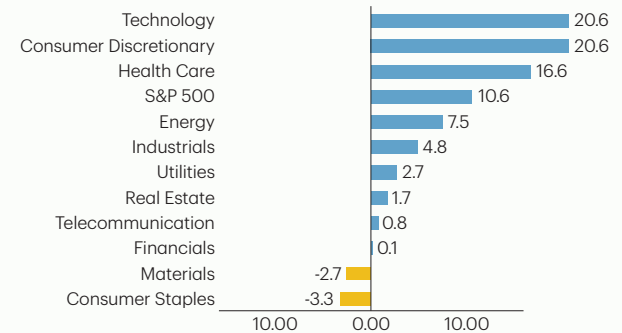
2018 YTD S&P/TSX Sector Returns



Q3/18 S&P 500 Sector Returns



2018 YTD S&P 500 Sector Returns



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Commentary

International Trade

In 1944, trade barriers were being dismantled by the newly formed Bretton Woods Accord. The Accord had three main results:

1. Articles of Agreement to create the International Monetary Fund whose purpose was to promote stability of exchange rates and financial flows.
2. Articles of Agreement to create the International Bank for Reconstruction and Development whose purpose was to speed reconstruction after the war and foster economic development, especially lending to build infrastructure.
3. Other recommendations for economic cooperation.

Fast forward to 2018 and trade barriers and tariffs are being escalated around the globe. I had commented in one of my letters several years ago about currency wars and the race to the bottom. Politicians and economists were pointing the finger at other countries and accusing them of devaluing their currency to support exports. The USD dollar was in its own slide against major currencies. I believe we are witnessing a different battle ground but the same war. If your currency is strengthening (eg. the USD), or if other currencies continue to weaken, then you implement trade tariffs to increase the cost of imports and thereby make your goods more competitive domestically. This drives up inflation

which results in interest rates being ratcheted up to curb that inflation. The frustrating and sad part about this rising inflation is that it is being artificially driven higher in part by those trade tariffs. In both Canada and the U.S., recently enacted tariffs are driving up prices within the building sector and consumers will feel this increase in 2 ways; increased cost of a new home, and increased mortgage rates – a negative double whammy. We are not yet at a tipping point, but I continue to watch this developing issue closely.

Major Investment in Canada

The breakthrough trade deal sealed on the last day of the quarter is a major sigh of relief. The new US-Mexico-Canada Agreement closes a chapter of growing economic uncertainty for Canada. Although the looming deadline for NAFTA was the highlight economic news of the quarter, I believe the Trans Mountain Pipeline fallout will be felt for years. Energy projects require extremely large sums of capital and with the recent ruling on Trans Mountain, Canada sent a message to the world. You can work your way through the regulatory labyrinth, spend a lot of money on development and construction, then be ordered that your project can't go ahead; or is delayed which drives up costs. I want my children and grandchildren to enjoy a cleaner environment, but we can develop our energy resources and infrastructure in a manner that can achieve that balance. Canada will be left behind as the rest of the world moves forward in

developing energy to supply the increasing global demand. Our outcome will be that we continue to sell our raw material (oil) to the U.S. at a deep discount and then import the final manufactured product (gasoline) at a steep increase in cost. Reminds me a bit of Canada 30+ years ago when we were known for exporting our raw materials and then buying back the finished manufactured product at a significant increase in cost. I think our dollar was at mid \$.60's/USD then.

Early in this new quarter, Shell and its partners announced their intention to go ahead with their C\$40Bln LNG project. I think this is extremely positive news on the heels of the Trans Mountain debacle. Significant concessions had to be made by the B.C. provincial and Federal Government to make sure this major energy infrastructure project moved forward. The next bigger step is to see it finished on time.



Joshua Borger, Jay Kolebaba, Catherine Edwards, Madison Mailey

Jay, Catherine, Madison and I thank you for your business and entrusting us to guide you and your family's financial journey. If you have any questions or issues you would like to discuss, we will be happy to receive your call.

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