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WEALTH MANAGEMENT INC.

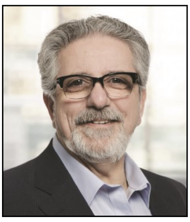
KPW LIFE PLAN—IMAGINE YOUR FUTURE

VOL. 8, ISSUE 4

APRIL 2019

“YOU SHOULD HAVE A STRATEGIC ASSET ALLOCATION MIX THAT ASSUMES THAT YOU DON’T KNOW WHAT THE FUTURE IS GOING TO HOLD” - Ray Dalio

Editorial Comment



Sergio Simone

Talk about “night and day”!

2018 was a good year for the economy, but not such a good one for investment portfolios. Like most corrections, the 2018 Q4 pullback dragged most asset classes down. There was no “safe space”, other than cash to park your money, and we all know that in hindsight, cash wasn’t the best choice.

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Yield Curve Inversion—Should We Be Worried?

Sergio Simone

If you have been a follower of my Editorial Comments in the **KPW Monthly Newsletter**, you know that I use the **“yield curve”** as one of the components of market forecasting. This is true, but what is also true is that I don’t use it in isolation. The use of any statistic requires context.

During the last week of March, the yield curve inverted for the first time in many years which led many pundits to conclude

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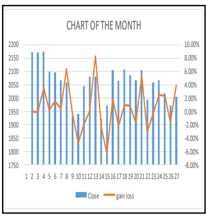
29 Reasons Not To Invest In The Stock Market



Wars, disasters, economic strife and political instability have been persistent themes over the last three decades and they can affect people’s attitude towards investing.

In many cases they make an already tough decision to part with your money and invest even harder, leading some to not invest al all.

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Investing With Patience: Inside The Mind Of A Fund Manager

Ryan Simone

You may have noticed that last year didn’t end great for the markets. In fact, October to December 2018 was the worst quarter for stocks in seven years.

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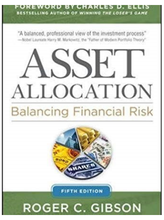
To Page 1

To Links Page



BOOK OF THE MONTH

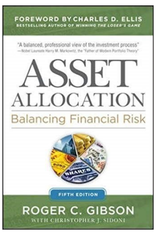
FUND OF THE MONTH MACKENZIE GLOBAL DIVIDEND FUND

INVESTMENT TERMINOLOGY

MillionDollarJourney

BLOG OF THE MONTH MILLION DOLLAR JOURNEY

BOOK OF THE MONTH

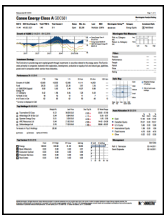


ASSET ALLOCATION—Balancing Financial Risk

—By Roger C. Gibson

Investors long to beat the market, and money managers accept that as their mandate. The sad reality is that most money managers underperform the market, and individual investors do even worse. Investors also face emotional challenges. The irrational exuberance of the 1990s, for instance, can as easily derail a sensible investment strategy as the market panic accompanying the Global Financial Crisis.

FUND OF THE MONTH



Mackenzie Global Dividend Fund

The Fund seeks long-term capital growth and current income by investing primarily in equity securities of companies anywhere in the world that pay, or may be expected to pay, dividends. The Fund may also invest in other types of securities that distribute, or may be expected to distribute, income.

INVESTMENT TERMINOLOGY

TREYNOR RATIO

The Treynor Ratio is a portfolio performance measure that adjusts for systematic risk. In contrast to the Sharpe Ratio, which adjusts return with the standard deviation of the portfolio, the Treynor Ratio uses the Portfolio Beta, which is a measure of systematic risk.

These ratios are concerned with the risk and return performance of a portfolio and are a quotient of return divided by risk. The Treynor Ratio is named for Jack Treynor

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BLOG OF THE MONTH

MillionDollarJourney

MAXED OUT RRSP AND TFSA—NOW WHAT?

I received an email from a reader with a bright financial future. She has both her RRSP and TFSA maxed out and wondering what to do next.

“First of all, thank you for sharing your wisdom and financial journey. I love reading your blog and I learn so much for it!

I was wondering if you could give me some advice on where to put my money after maxing out my RRSP and TFSA contributions…..”

To start, more details are needed such as, what other assets does she have? Does she have a defined benefit pension? Does her spouse have a defined benefit pension? Are they considered high income?

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PRIVATE WEALTH

INFORMATION AND SOLUTIONS FOR HIGH NET WORTH INVESTORS

ONCE IN A LIFETIME—MOVING CANADIAN PRIVATE AND FAMILY BUSINESSES FORWARD

Canadian private and family businesses are in the midst of a once-in-a-generation event. In this report, we set the scene by exploring the drivers behind the great Canadian wealth transfer and outline what's at stake. The owners and leaders of Canadian private and family businesses have started to exit the workforce in huge numbers, and business valuations are at record highs. The result is an unprecedented transfer of wealth and responsibility as 816,000+ businesses set out to change their CEO or ownership in the

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WHAT WEALTHY CANADIANS WANT

You may think that the world's wealthiest also take the biggest stock-market risks—after all, they seem to keep growing their nest eggs—but you'd be wrong.

In fact, studies have shown that high-net-worth individuals actually take fewer risks than the average retail investor who wants to reach a new level of affluence, says Craig Strachan, Vice-President, Head of Product at Fidelity

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TAX PLANNING STRATEGIES FOR HIGH INCOME EARNERS

Depending on your province of residence, you may be subject to tax at a rate of 50% or higher when your income exceeds $200,000. This article highlights a non-exhaustive list of tax minimization strategies to consider with your professional advisor. The use of these strategies will vary based on personal circumstance. As such it is crucial to check with your qualified tax advisor prior to implementing any of these strategies.

Continue Reading

FAMILY DYNAMICS: TOP TEN WILLS, TRUSTS AND ESTATES BOUTIQUES

Happy families are all alike, but unhappy families are all unhappy in their own way, wrote Tolstoy in *Anna Karenina*. When negotiating, arranging and implementing wills, trusts and estates, the unique dramas accompanying a family—and the evolving cultural and economic context in which they exist—are growing in intricacy, especially compared to the simple days of primogeniture, where an estate was transferred to the child lucky enough to be born first.

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FUND MANAGER COMMENTARY

JOE JUGOVIC
QV INVESTORS INC.

AVERY SHENFELD
CIBC

PHILIP PETURSSON
MANULIFE
INVESTMENTS

ANDY KOCHAR
AGF
INVESTMENTS

Joe Jugovic, President, CIO & CEO

QV Investors Inc.

What a difference a few months makes. Following an extremely volatile end to 2018, with global stock markets plunging, all major equity markets advanced in the first quarter of the year. The catalyst for this market reversal was a dramatic 180-degree turn in the outlook of the Federal Reserve.

Continue Reading

Avery Shenfeld, Managing Director Chief Economist

CIBC Capital Markets

Third Time Unlucky?

Canada seems to be coming out of its second brush with recession risks, but will it be a case of third time lucky? The first close call was back in 2015, when we went through two consecutive quarters of falling real GDP after oil sector capital spending tumbled. Continue Reading

Philip Petursson, Chief Investment Strategist

Manulife Financial

The Medium Is The Message—Revisited

Two years ago almost to the day, we wrote a note entitled, “The Medium is the Message”. It was in regards to the fact that the market seemed so focused on **what** the Fed was going to do—raise the Federal Funds rate, and by how

Continue Reading

Andy Kochar, Portfolio Manager and Head of Credit

Jean Charbonneau, Senior V.P. and Portfolio Manager

Stephen Duench, V.P. and Portfolio Manager

Why Income Investing Is For Everyone

Members of AGF’s investment management team recently sat down for a special roundtable to discuss the importance of income investing in a time marked by rising debt loads, low interest rates and stagnant wages. These are not small challenges, but our team believes a diversified approach to seeking yield is crucial in the current environment and can leave investors of all ages in a better position to achieve their long-tern goals.

Continue Reading

To Page 1

LINKS

To Page 2

Absent A 'Policy Mistake,' There's No Way US Will Have A Recession This Year Or in 2020

The US will not head into a

Japan Warns G-20 That Global Economy Still Faces Downside Risks

Japan kicked off its G-20 presidency by reminding the world

Tax Highlights From The 2019 Ontario Budget

Finance Minister Victor Fedeli tabled the 2019 Ontario provincial budget on April 11, 2019. The budge projects a deficit

Developed Versus Emerging Market Currencies

The bull run for the U.S. dollar may be over. With the greenback

Outlook On Emerging Markets

Emerging markets equities rebounded in the first quarter after declining significantly in 2018,

2019 Global Market Outlook—Q2 Update: The Pause That Refreshes

Global central banks have turned dovish, China stimulus is stronger

Top IMF Official Warns Global Economy Facing Various Threats

The head of the 189-nation International Monetary Fund

Shorting Canadian Banks Is 'Dangerous' - Driven By Emotions Not Fundamentals

Let's Talk About The Next Recession: Our Plan Of Action

If you are confused about the future outlook of the economy

TD Asset Management

DECODING THE CANADIAN CRUDE CONUNDRUM

Oil, black gold, Texas tea or rock oil—choose your preferred term—is a crucial natural resource consumed

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Savvy New Canadians

A COMPLETE GUIDE TO CANADA'S RETIREMENT INCOME SYSTEM

This is an extensive (yet simplified) guide on Canada's retirement income system. It summarizes the basics of the benefits and incomes available to seniors in their retirement and also gives a few pointers on how to get started on your retirement planning and on your journey towards financial freedom.

To make navigation easy, I have added links to specific topics that you can jump to using the links below. If you would like to read the entire guide on retirement income sources in Canada, then just keep scrolling.

VIDEO LINKS

Emerging Markets Are The 'Place To Be' For 2019: Strategist

Kathryn Rooney Vera of Bulltick Capital Markets explains why she

Monthly Economic Outlook April 2019

Senior Economist Sarah House and host Charlie Dougherty discuss consumer spending, labor

Canadian Stocks Should Outperform in 2019

Philip Petursson, chief investment strategist at Manulife Investments, says 2019 will be a

WORLD ECONOMIC OUTLOOK—GROWTH SLOWDOWN, PRECARIOUS RECOVER

After strong growth in 2017 and early 2018, global economic activity slowed notably in the second half of last year, reflecting a confluence of factors affecting major economies. China's growth declined following a combination of needed regulatory tightening to rein in shadow banking and an increase in trade tensions with the United States. The euro area economy lost more momentum than expected as consumer and business confidence weakened and car production in Germany was disrupted by the

EDITORIAL COMMENT-CONTINUED

Fixed Income, Equities and Commodities all got hit hard. By contrast, 2019 Q1 has seen a strong surge in most asset classes.

However, the exceptional returns in the last quarter occurred amid a weakness in the real economy, especially in the U.S. I recently looked at a chart of some U.S. economic indicators – notably manufacturing activity, housing and retail sales and they have begun to point to a slower pace of expansion. What is concerning is that some indicators are now flirting dangerously with contraction.

Although the contrast of growth and contraction was most noticeable in the U.S., the rest of the world is not unscathed. Europe remains weak and is currently exhibiting signs of an imminent recession. Europe's economic struggles in 2018 were attributed to "temporary factors" but it now appears that those isolated circumstances have evolved into something much deeper. A measure of a countries economic strength is the PMI (Purchasing Manager's Index). A PMI of 50 or greater is indicative of a strong economy while less than 50, points to a relatively severe contraction in a country's export-oriented manufacturing sector. Germany, considered one of the healthier European countries, fell to 44.7 in March.

So, we now find ourselves in a conundrum. Markets have definitely rallied in Q1, but the economy has been weakening. What is going on?

Before giving my take on this, I want to point out that stock market prices are generally not reflective of what is going on today, but rather they tend to anticipate future changes in economic conditions, usually six to nine months out. Therefore, current stock market prices are indicative of what the markets "think" is going to occur. For example, the growth figures we are currently experiencing do not appear to be much worse than what the markets had already discounted in Q4 of last year. It seems that market prices have just fallen into a range more suggestive of a reduced pace of economic expansion. Markets are still expanding but at a slower pace than most of last year.

We need look no further than Fed Chair Jerome Powell's more dovish stance on tightening as proof of this change in the economy. In my opinion, current market pricing is now in line with the Fed possibly cutting rates later this year. I applaud the Fed's direction right now as it increases the probabilities of a soft landing in the U.S. economy when a recession finally comes.

Recent hints from the White House suggest that a trade deal is imminent with China. I believe China recognizes that any trade deal with the U.S. will result in a slowdown in its main export destination, so policymakers have been applying some domestic stimulus to bolster the Chinese markets.

I recall the many pundits who pointed to high price-to-earnings ratios last year when the S&P 500 was trading at a multiple of 18 times earnings, which was high for the cycle. By the end of the year it had over corrected to almost 14 times. Even after the current rally, it has only risen to 16.5 times earnings. I like that this still leaves some room for further improvements in case corporate earnings disappoint.

Currency is another area where we are walking a tightrope. We cannot ignore the direction of the U.S. dollar. Although Emerging Market currencies have shown a little resilience recently, the U.S. dollar continues to remain strong against its developed market peers such as the Euro and the Yen. Not even the recent dovish stance of the Fed could push the Euro higher.

My concern for a strong and rising U.S. dollar is that it makes it glaringly obvious that an economic weakness is persisting in non-U.S. developed nations. The higher dollar ends up negatively impacting countries that borrow in U.S. dollars which can ultimately cause a financial tightening for economies and markets.

A cursory look around the world would indicate that geo-political risks are easing but this type of risk can appear without warning at any time. Take the China/U.S. trade negotiations. Right now, they seem to be on track for a positive outcome but any deterioration in tone from either government would likely cause markets to reverse.

Upcoming elections in Canada and the United States could have uncertain results.

EDITORIAL COMMENT-CONTINUED

For example, the recent turmoil surrounding the Liberal government in Canada will likely make for some volatility heading into October's election. In the U.S., an election will surely highlight the deep divide between the two major parties which may have a negative effect on the stock markets.

If you have been following my commentaries recently, you will know the elephant in the room is the recent yield curve inversion. We recently experienced the first yield curve inversion since 2007, meaning that the 3-month Treasury Bill yields more than the 10-year Treasury bond. This is typically a precursor to an impending recession.

At this time, we are not anywhere near a panic mode since the inversion would need to remain in place for more than just a few days or even weeks. For example, this inversion could quickly change course with an interest rate cut. This is exactly what happened in 1998 when the yield curve inverted briefly, but re-steepened in response to a Fed rate cut. In fact, an equity market rally also took place in conjunction with the inversion reversal.

We are closely watching this situation because, if the Fed ignores the current conditions and does not cut rates in response to recent economic weakness, the curve is likely to remain inverted and would signal to us that there is a growing probability of a recession.

I continue to remain bullish about the current economic environment, though our recent portfolio allocations are tending to become a tad more conservative. Hopefully the Fed will recognize the "bigger picture" and act accordingly.

YIELD CURVE INVERSION—SHOULD WE BE WORRIED?—CONTINUED

that we were well on our way to recession. The last time this occurred in the U.S. was in 2007 when long-term yields fell below short-term yields in both Canada and the United States.

There is some logic concluding that a recession is on the way. Looking at the historical significance of this event in relationship to the U.S. economy, since 1969 this has occurred seven times, and in each of those seven instances, an inversion in the yield curve was followed by a recession. No need to panic – yet. On average, it took 311 days since the inversion for the beginning of the recession.

Although the yield curve can act as a barometer of things to come, it does not give any indication of "when" this might happen. The following chart illustrates that an inversion in the yield curve has been a harbinger of an impending recession, but it also shows that the timing cannot be predicted.

HOW LONG UNTIL THE RECESSION?		
When the 3-month/10-year Curve Inverts For 10 Straight Days		
Date Of Inversion	**Date of Next Recession**	**Days To Next Recession**
January 10, 1969	December 1969	325
June 14, 1973	November 1973	140
December 8, 1978	January 1980	389
November 7, 1980	July 1981	236
June 5, 1989	July 1990	390
July 31, 2000	March 2001	213
August 1, 2006	December 2007	487
Average		**311**

Source: Bianco Research

Despite the unreliability of the yield curve in determining the timing of a recession, what is infallible is that recessions are unavoidable in the long run, so it is imperative that you have a plan for "when" the recession occurs and not "if" it will occur.

Let's face it, the best anyone can do in predicting the economy or the stock market is to gather as much information as possible and increase the probability of making a correct forecast. There are no certainties in market outlooks and predictions. Besides, seven instances can hardly constitute a reliable data set.

Avery Shenfeld, chief economist at CIBC, said in a recent interview that "the flattening yield curve isn't necessarily warning of recession but is responding to economic indicators." He believes that the flattening yield curve is "a message in markets that they don't see the need for a lot more rate hikes at the front end of the curve, which is why short rates have gotten close to longer-term rates."

Shenfeld makes a good point. Between the summers of 2017 and 2018 central banks in both Canada and the U.S. seemed to be on a mission of monetary tightening. The Bank of Canada raised its key rate five times during this period. They were so focused on tightening that many criticized them for their exuberant path to rate increases. The fear many had was that the tightening would become excessive which has historically been a catalyst or trigger for a recession. Fortunately, both central banks now seem to have recognized the reality of the cycle we are in and have paused the tightening mania. It has become evident to them that neither the U.S. nor Canadian economies are showing enough momentum to withstand sharply higher interest rates.

It now appears that the Fed is even considering a rate cut in 2020 as fiscal stimulus is expected to wane that year.

A negative yield curve in today's economy is not quite the same as a negative yield curve in the 1970s or 80s when double digit inflation was prominent. Today the markets do not fear we will reach those levels and therefore we must look at the yield

To Page 1 Disclaimer Continue Reading

YIELD CURVE INVERSION—SHOULD WE BE WORRIED?—CONTINUED

curve in a different light. Today it may be more relevant to look at the slope of the yield curve as it inverts and not just the inversion. A gently sloping curve without other factors like a softening in employment data, may not be as ominous as it once was.

The 10-year yields are now just barely above the three-month yields in Canada and the U.S. but job growth is solid. Job growth in Canada is the best we have seen since 2017 while the U.S. economy added an additional 196,000 jobs in March. I recently read an article that predicted the U.S. unemployment rate may fall to as low as 3.3% in 2020.

The reason recessions occurred after inversions in the past is that the Fed policy was contractionary as it tried to fight inflationary pressures. Unfortunately, when the Fed raises real interest rates to levels high enough to slow demand and fight inflation, recession is often the result.

Keeping all this in mind where are we right now? Is the Fed contractionary or accommodative? On average, over the last 70 years the federal funds real rate has averaged about 1.3% although we fell well below the average in January 2008 when the Fed slashed rates to prevent a depression. Since that point in time, the Fed has kept its policy accommodative. The latest forecast from the Federal Reserve Bank of Philadelphia's Survey of Professional Forecasters has called for an inflation target of 2% in 2019. The current three-month T-bill rate is approximately 0.42%, which is well below the historical average of 1.3%. It is evident that monetary policy is still accommodative and supportive of economic growth.

In my opinion, if the real federal funds rate remains at relatively low levels and the nominal federal funds rate is basically flat relative to the 10-year notes, then we should probably assuage our concerns that the current inversion in the yield curve is a declaration that a recession is imminent.

That being said, it would be foolish to ignore the fact that a recession can still possibly be triggered by other factors. I just don't see it being caused by a tightening in monetary or fiscal policy.

With so much uncertainty engulfing the economy and the markets, it is critical to maintain a well diversified portfolio.

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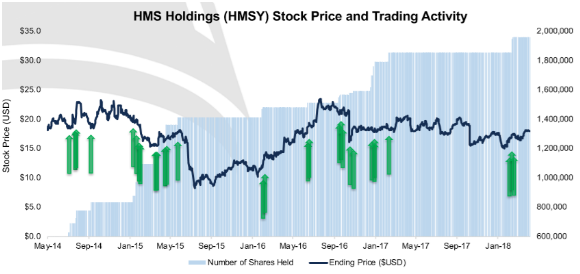
Investing With Patience: Inside The Mind Of A Fund Manager—Continued.

Fortunately, things have turned around and we're coming back strong having just finished the first quarter with a very positive note. In fact, markets haven't seen a quarter this good in the last 10 years! Taking part in these types of returns is fun but it also speaks volumes about being patient and riding out those nasty storms.

During a recent meeting with Phil Taller, who manages the Mackenzie U.S. Mid-Cap Growth Fund, I was reminded of the concept of investing with discipline and patience. As investors, we're essentially giving fund managers our money and in turn they use that money to buy and sell stocks. The good fund managers make their investors money and the manager I met with is one of the good ones. They're often able to do this because they have a disciplined investment approach and the resources needed to research and pick good stocks. Phil Taller knows that he can't time the market because nobody can. Instead he picks only those companies that meet his very specific investment philosophy. This means that there can be long periods of time before his picks have a worthwhile impact on our portfolios. One example he gave was his pick of a company called HMS Holding Corp.

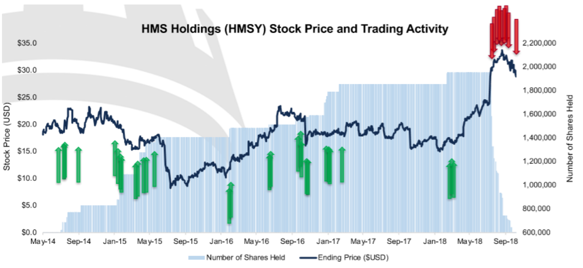
HMS Holding Corp. was a company Phil felt had growth potential. He did all of his due diligence including interviewing management and examining the company's financials. He decided he wanted to hold the stock and so he started making purchases. You can see the timing of these purchases in the chart below by the green arrows.



From about May 2014 to Jan 2018 the stock did nothing. In fact, an emotional investor probably would have sold out of his position in 2015 when the stock price fell by about 50%. For four years while this holding underperformed in his fund, Phil was able to remove the emotion of investing and focus on his disciplined approach. I remember laughing when he commented on this chart saying, "it's the type of chart that gets people like me fired!"

Then in September 2018, Phil Taller decided to sell off his positions in the company. You can see this sell off period in the chart below where the red arrows are.

As we can see in the chart, four years later this patient investment approach in which the manager removes emotion and focuses on a disciplined investment philosophy really paid off! But most importantly I think it reminds us that good investing is about patience and discipline.



Whether you're a fund manager or an investor, we make more money when we don't make emotional, fear-based moves. This is also why we hire fund managers to do our stock picking. This manager did what we're all supposed to do when the markets drop – buy more. And make no mistake, the markets will drop and when they do try to remember to take out the emotion and if you have a few extra bucks, try to buy more.

GO TO PAGE 1

Disclaimer

Joe Jugovic—Continued.

Shifting away from the current tightening cycle, Chairman Powell signaled there would be no further rate hikes in 2019, providing a huge psychological boost to investors. While the U.S. continues to post healthy economic data, the global economy is showing signs of weakness. Growth in China's industrial output recently fell to a 17-year low alongside a rise in the jobless rate. With 2019 growth on track to land near 30-year lows, the Chinese government has increased assistance for the economy. Premier Li Keqiang announced hundreds of billions of dollars in additional tax cuts and infrastructure spending. In Europe, the central bank slashed its growth forecast for 2019 to just over 1%, an anemic rate of growth. ECB President Mario Draghi reiterated that interest rates are likely to remain at these record low levels at least until the end of the year, and also announced a fresh set of loans to European banks aimed at boosting the economy.

Where to from here? While there is certainly no shortage of global economic concerns, when it comes to the stock market, the effects from returning to more accommodative monetary policy cannot be underestimated. The last three months prove just that. The weak economic data alongside continued uncertainty about trade wars and geopolitical concerns didn't disappear, yet markets generally surged ahead. By returning to neutral or potentially accommodative monetary policy, the central banks of the world are further prolonging this equity cycle.

The recent reversal by the Fed is reminiscent of other attempts in stock market history to stabilize markets. In the late 1990's, as the tech bubble was inflating, then Fed Chairman Alan Greenspan wasted no time easing policy when a little-known hedge fund called Long-Term Capital Management collapsed and sent the stock markets into free fall. This year, the recent plunge in markets due to growing global economic woes was enough to force Fed Chairman Powell to take soothing action. While these measures can provide a powerful short-term solution for investors, they can also create longer-term imbalances.

The fears that appeared at the end of last year have subsided for now, but we don't think investors should be increasing their exposure to risk assets. To be clear, while the near-term threat of higher rates has diminished for the time being, the greater concern is that the world is so overwhelmed by debt that the global economy can't afford higher rates. We are in year 10 of this cycle, and the level of debt and monetary stimulus already worked into global economies remains at or near unprecedented levels. There isn't a lot of dry powder for future stimulus. Consumers, businesses and governments are dependent on borrowing, with little savings for rainy days.

The world's bond markets are flashing warning signs with yields collapsing and major economies like Germany once again finding themselves with negative 10-year government bond rates. The inability of economic powerhouses like Europe or Japan to find their footing and show sustainable growth after prolonged and aggressive monetary policy is worrisome. But who knows - if China and the U.S. come to terms on trade, it may help all these interconnected economies.

Challenges within the Canadian economy are also growing. Like in many other global markets, real estate in Canada is slowing. This has been a major driver of the wealth effect for many Canadians over the last few decades, contributing to high levels of consumption. Also, significant levels of debt are tied to the value of real estate, as is the soundness of our banking system. A continued slowdown will impact the growth of our domestic economy. We expect the Canadian central bank will be prepared to act if challenges persist in this respect. Again, though, it would be to treat the symptoms (by easing consumers excessive debt payments) rather than addressing the real issue of absolutely high debt levels.

We anticipate heightened volatility for the remainder of the year as the struggles of the global economy draw focus from short-term monetary moves. In general, our portfolios remain well diversified and conservatively positioned, with historically attractive valuations that are better than the market. With uncertainty comes opportunity. We are finding pockets of good value in companies that have been beaten down by negative sentiment or ignored by the market. We will continue to invest in these businesses as many of them are leaders in their industries with track records of resilience. We can't be afraid of market cycles but rather will aim to use them to our advantage.

and by how many times – that the market neglected to focus on why the Fed was taking any action at all. That was to say that quibbling over how many times the Fed was going to raise rates, and by how much was to ignore the fact that by the Fed raising rates at all was to signal an endorsement of the health of the US economy. Similarly today, investors should pay careful attention towards the FOMC statement and actions that indicate the Fed is on pause on further rate hikes through 2019.

The Federal Open Market Committee held the Federal Funds Rate to a target of 2.25%-2.50% today. A quick glance at the "dot plots" suggests that the median expectation is for the rate to remain at its current level through 2019, with only one hike suggested for 2020. This is a more dovish posture from the last statement. Additionally, the Fed set out a plan with regards to its balance sheet normalization. "The Committee intends to slow the reduction of its holdings of Treasury securities by reducing the cap on monthly redemptions from the current level of $30 billion to $15 billion beginning in May 2019. The Committee intends to conclude the reduction of its aggregate securities holdings in the System Open Market Account (SOMA) at the end of September 2019."

While we had been of the view that the Fed may raise rates 1-2 times in 2019, following this statement we would suggest that we have seen the end to this tightening cycle.

In its statement the Federal Open Market Committee commented "that the labor market remains strong but that growth of economic activity has slowed from its solid rate in the fourth quarter." Further, the Fed's economic and inflation expectations have eased since the last statement to a median expected growth rate of 2.1% for 2019 (from 2.3%) and an inflation rate (PCE) of 1.8% (from 1.9%). Recall that back in 2017 when the Fed started to raise rates at a more rapid pace the Fed Funds Rate stood at 0.75%, well below inflation at a time when inflation and economic growth was accelerating. Today, the Fed Funds Rate sits above inflation and much more in line with the historical norm at a time when disinflation and decelerating growth may be more prevalent. The Fed has made the case against further monetary policy tightening.

Canadian investors may want to consider what the Fed's posture means with regards to currency positioning. Following the Bank of Canada's own statement a couple of weeks ago we suggested downside risk to the Canadian dollar with our base case of no further rate hikes by the BoC and one by the Fed. If the Fed holds steady along with the BoC, the 2-year spread between the respective government bond yields will likely stay stable which may mean less downward pressure on the loonie than anticipated – although still downward pressure. We believe the downside risk to the CAD is towards US$0.73, however further downside from that level may be dependent on a rate cut by the Bank of Canada. We would suggest that a rate cut by the BoC is not an unreasonable expectation. Logic would suggest that if the Fed is on pause surely the Bank of Canada cannot raise rates given the state of the Canadian economy and in fact may need to seriously consider a rate cut.

Back in 2017 we wrote "In his 1964 book Understanding Media: The Extensions of Man, Marshall McLuhan proposed that it was the medium of communication itself rather than the message that should be the focus of study." Today, we would highlight that the medium - no rate hikes through 2019, is the message – the economy is slowing perhaps faster than we would like to see. US equities rallied immediately following the announcement as did bonds. However, can both markets be right? By market close equities gave back the gains. Investors may want to focus on why the Fed paused in determining a course of action. To that end we feel that a more neutral asset mix with an eye towards shifting to a more defensive posture may be warranted through 2019.

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RETURN TO PAGE 1