Kleinburg PRIVATE WEALTH

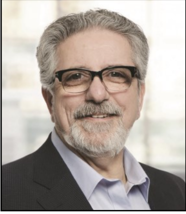
Carte WEALTH MANAGEMENT INC.

KPW LIFE PLAN—IMAGINE YOUR FUTURE

VOL. 8, ISSUE 8

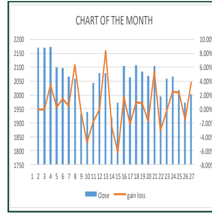
AUG 2019

"THERE IS ALWAYS SOME CHANCE OF RECESSION IN ANY YEAR. BUT THE EVIDENCE SUGGESTS THAT EXPANSIONS DON'T DIE OF OLD AGE." *- Janet Yellen*



Sergio Simone
EDITORIAL COMMENT

Kristina De Souza
RRSP VS TFSA THE ONGOING DEBATE



MAIN YIELD CURVE INVERTS AS 2-YEAR YIELD TOPS 10-YEAR RATE

Ryan Simone, CLU, CHS
RECESSION OR NO RECESSION, THAT IS THE QUESTION

Editorial Comment

Sergio Simone

The most often asked question since the beginning of the month is; "where is the economy headed?" Short answer is: "I don't have a clue." Probably not what you want to hear, but between the geopolitical issues and Trump's America, everyone is confused. Look no further than the stock market for evidence that investors are as perplexed as I am. August has been a rollercoaster of a ride.

Continue Reading

RRSP vs TFSA—The Ongoing Debate

Kristina De Souza

There's an ongoing theme in our industry that seems to keep resurfacing; the age old RRSP vs TFSA debate. The fact of the matter is, the comparison is not a particularly valid one, and is a classic case of comparing apples to oranges. Generally speaking though, the verdict is still out on which is the 'better vehicle'.

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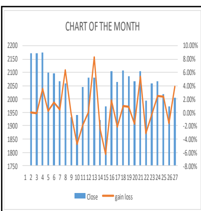
Main Yield Curve Inverts As 2-Year Yield Tops 10-Year Rate



The yield on the benchmark 10-year Treasury note broke below the 2-year rate early Wednesday, an odd bond market phenomenon that has been a reliable, albeit early, indicator for economic recessions. The yield on U.S. 30-year bond also turned heads on Wall Street during Wednesday's session as it fell to an all-time low, dropping past its prior record notched in summer 2016.

Continue Reading

Ryan Simone, CLU, CHS

Recession Or No Recession, That Is The Question

I'm sure, like me, many investors are wondering if Trump's trade war with China will be enough to finally topple the decade long, $21 Trillion, largely domestically driven, American economy. Recession advocates come by their analysis honestly based on a combination of trade issues and signs of weakness in the domestic market.

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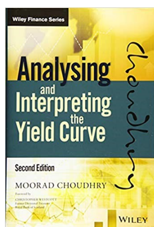
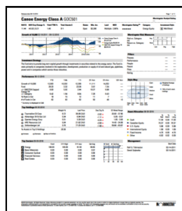


BOOK OF THE MONTH

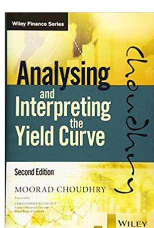


FUND OF THE MONTH MACKENZIE CDN GROWTH BALANCED

INVESTMENT TERMINOLOGY

BLOG OF THE MONTH GLOBAL ECONOMIC TROUBLE BREWING

BOOK OF THE MONTH

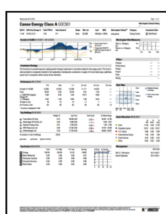


Analyzing and Interpreting the Yield Curve

—By Moorad Choudhry

This is a technical guide to the yield curve, a key indicator of the global capital markets and the understanding and accurate prediction of which is critical to all market participants. Being able to accurately and timely predict the shape and direction of the curve permits practitioners to consistently outperform the market. It explains what the yield curve is and explains what it tells participants while outlining certain shapes that the curve assumes and demonstrates what factors drive it.

FUND OF THE MONTH



Mackenzie Canadian Growth Balanced Class

This is a balanced fund of equities and fixed income positions. It seeks to deliver long-term growth of capital by investing in high quality companies complemented with a Core Plus investment approach to fixed income selection. It invests in niche market leaders which are not typical household names. The Portfolio Managers believes that the addition of non-investment grade securities in a Core Plus fixed income strategy can enhance overall returns and reduce interest rate risk

INVESTMENT TERMINOLOGY

CURRENCY RISK

A Mutual Fund that buys and sells securities denominated in currencies other than the Canadian dollar may experience a gain or loss depending on changes in the exchange rate between the two currencies. Currency Risk can have a positive or negative effect on portfolio returns. A Canadian investor with unhedged foreign currency exposure can benefit from a depreciating Canadian dollar. On the other hand, the same investor's portfolio will be affected negatively by an appreciating Canadian dollar.

BLOG OF THE MONTH

GLOBAL ECONOMIC TROUBLE IS BREWING, AND THE TRADE WAR IS ONLY PART OF IT

In a span of less than 24 hours, developments in Washington and Wall Street have sent a vivid message: The world is ambling toward an economic morass of the sort that no mere presidential tweet can fix.

On Tuesday, President Trump blinked in the trade war with China, retreating from previous plans to apply tariffs to virtually all Chinese imports on Sept. 1. The action ensures that American buyers of Chinese-made toys, smartphones and much more won't face tariff-boosted prices this holiday season.

"Huzzah!" said the stock market. The trade war is de-escalating! Christmas is saved! The S&P 500 rose 1.5 percent, to a level only about 3 percent below its record high on July 29.

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PRIVATE WEALTH

INFORMATION AND SOLUTIONS FOR HIGH NET WORTH INVESTORS

ESTATE PLANNING FOR COMPLEX FAMILY DYNAMICS

Today, the modern family comes in many different shapes and sizes; this diversity is having an impact on family relationships and the way families interact when addressing estate planning. Toward the end of each year, various media outlets publish tribute lists that help us remember the artists, musicians, actors and other famous people that the world has lost over the previous twelve months. Unfortunately, many of these public figures continue to make news long after their passing because they did not have a valid Will or estate plan to distribute their sizable net worth and many valuable assets to their loved one.

Continue Reading

WHAT ARE ALTERNATIVE INVESTMENTS?

Broadly speaking, alternatives are investments in assets other than stocks, bonds and cash, or investments using strategies that go beyond traditional methods, such as long/short or arbitrage strategies.

Since alternatives tend to behave differently than typical stock and bond investments, adding them to a portfolio may provide broader diversification, reduce risk and enhance returns.

Continue Reading

A QUICK GUIDE TO HIGH-NET-WORTH ESTATE PLANNING

Estate planning goals for high-net-worth individuals includes protecting inheritances for heirs, minimizing estate taxes, avoiding the probate process and appointing the right trustee. The following information should be seen as a starting point for choosing the right estate planning attorney. Unfortunately, some are not acting in the best interest of their clients. They will sometimes opt for a route that provides them with the most income opportunity, not what will reduce costs and guarantee that assets end up in the right hands.

Continue Reading

NATIONAL BANK

WHY HIGH-NET-WORTH INDIVIDUALS NEED GOOD FINANCIAL ADVICE

When sizeable assets are involved, going without a detailed, comprehensive plan could put your financial future at risk. It's a small group with big assets: Canada's high-net-worth (HNW) and ultra-high-net-worth population numbers about 320,000 people, or roughly one per cent of the country, according to a 2014 World Wealth Report from Capgemini. This exclusive group boasts an aggregate wealth estimated at US$979-billion.

At this top level of wealth, getting help from a professional financial planner isn't just a highly recommended move—it's an absolute necessity, says

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FUND MANAGER COMMENTARY

ALEX BELLEFLEUR
MACKENZIE INVESTMENTS

PHILIP PETURSSON
MANULIFE INVESTMENTS

JOE JUGOVIC
QV INVESTORS

DANIEL ARSENAULT
MACKENZIE INVESTMENTS

Alex Bellefleur, Chief Economist and Strategist

Mackenzie Investments

THOUGHTS ON THE LATEST TRADE WAR FLARE-UP

After an early summer reprieve in the trade war between the United States and China, President Donald Trump imposed another round of tariffs on Chinese goods, targeting $300 billion in imports at a 10% rate. Continue Reading

Philip Petursson, Chief Investment Strategist

Manulife Investment Management

“Over the last few days, the equity markets have done a good job of reminding us why it is important to have a good defense in a portfolio. The sell-off in the US markets perhaps correctly started last Monday, as the expectation for a much more dovish Fed started to decline. But it wasn’t until the Fed’s statement and subsequent press conference that reality started to set in as it was clear that the Fed was not starting on an aggressive easing path as the market wanted.” Continue Reading

Joe Jugovic, President & CEO

QV Investors

Why do you believe markets are at a “T” intersection?

Up until Q4 of last year, the market was moving along, the Fed was tightening, the U.S. economy was strengthening and global economies were doing reasonably well. By Q4, this started to change, as investors were becoming increasingly worried about trade tensions.

Continue Reading

Daniel Arsenault, Investment Director, Equities

Mackenzie Financial

Why Balanced? For Returns and Managing Risks.

It’s close to impossible to predict what assets will perform the best (or worst) over time in any market. As a result, investors spread their savings across many asset classes and many countries or regions, according to their ability or willingness to take risk. This spreading out of assets is called “diversification”.

The colourful table below shows the returns of different assets over time. The chart puts the highest return at the top and the lowest return at the bottom, and different assets are colour-coded so it is easy to track where different assets rank in terms of top performers.

Continue Reading

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LINKS

To Page 2

TSX Outperforms US Markets As Gold Hits US$1500 For First Time In Six Years Canada's main stock index	So-Called 'Smart' Investors No Safer From Scammers, FCA Says Study finds 42% of pension holders are potentially	UK Economy Shrinks For First Time In Almost 7 Years The British economy shrank in the second quarter for the first
1 Euro Bond Yields At New Lows After U.S. Yield Curve Inverts U.S. yield curve inverts for first time since 2007	Risks And Rewards As Yields Fall In a world of negative-yielding government bonds, a Federal Reserve in easing mode might	Why Nerds And Nurses Are Taking Over The U.S. Economy A blockbuster report from government economists forecasts the
Ex-Fed Boss Greenspan Says 'There Is No BHarrier' To Treasury Yields Falling Below Zero There is some $15 trillion in	The Typically Calm Bond Market Is Alarmed About The Economy Compared to the free-swinging and sometimes emotional stock	Banks Are Paying People To Borrow Money For Americans accustomed to paying 4 or 5 percent mortgage rates, let alone double-digit

Manulife Bank

2019 DEBT SURVEY RESULTS

Think you're alone with your debt? Think again. We surveyed Canadians to see how Millennials, Gen Xers, and Boomers manage their money and debt, and the results show we have much more in common than you might think.

ANGUS REID INSTITUTE

WELCOME OR WORRY? AGING CAUSES ANXIETY FOR SOME, WHILE OTHERS TAKE IT IN STRIDE

As Canada's Baby-Boomers get older, more and more Canadians are being exposed to the practical realities of aging. A new study from the non-profit Angus Reid Institute, in a series examining aspects of the aging process, looks at some of the physical and emotional elements of this discussion.

Canadians over the age of 30 are a divided population when it comes to their feelings about aging. Indeed, while just six percent say they entirely fear growing older, 15 percent say they welcome it.

VIDEO LINKS

Hong Kong Cuts 2019 GDP Forecast, Announces Stimulus Hong Kong slashes its economic forecast for 2019 and announced	Germany, the U.K. And Others Are Flirting With Recession. Can Canada Dodge The Economic Bullet?	Hong Kong Protests: What's Going On And What's The Impact? Millions of Hong Kongers have taken to the streets since early

Blackstone

BLACKSTONE'S BYRON WIEN ON THE MARKET SELL-OFF AND U.S. –CHINA TRADE TENSIONS

CNBC TELEVISION

Byron Wien, Blackstone Private Wealth Solutions' vice-chairman, joins "Squawk Alley" via phone to discuss the markets amid a 500-point sell-off.

EDITORIAL COMMENT-CONTINUED

Over the last week, the Dow Jones Industrial Average experienced four days of 300 point plus movement, including an 800-point drop day for good measure. It seems that 1% swing days have become more the norm than the aberration.

The main concerns at the end of 2018 were rising interest rates and a trade war with China. Today's concerns still revolve around interest rates and a trade war with China, except that the concern is that Fed Chair Powell is not cutting rates quick enough to keep the economy stimulated as the rest of the world seems to be doing.

I have been reading some prognosticators who predict that this will be the new norm over the next couple of years but I am of the school of thought that believes this kind of turmoil is really quite normal for the market, especially when you take a long-term perspective. What is abnormal is the exceptionally low volatility environment investors have been experiencing since 2009.

The media loves this type of market. Let's face it, dramatic markets make for great headlines. "Dow tumbles 800 points after bond market flashes a recession", on cnn.com. Does this catch your eye? Absolutely! Is it dramatic? Definitely! Is it useful financial or trading information? Maybe. While this article may contain some detailed and useful information, most readers will stop at the headline, missing out on useful and actionable information. You may also notice that there is no mention of the fact that the Dow Jones Industrial index is still up over 11% year-to-date, or that the S&P 500 is up over 15% YTD.

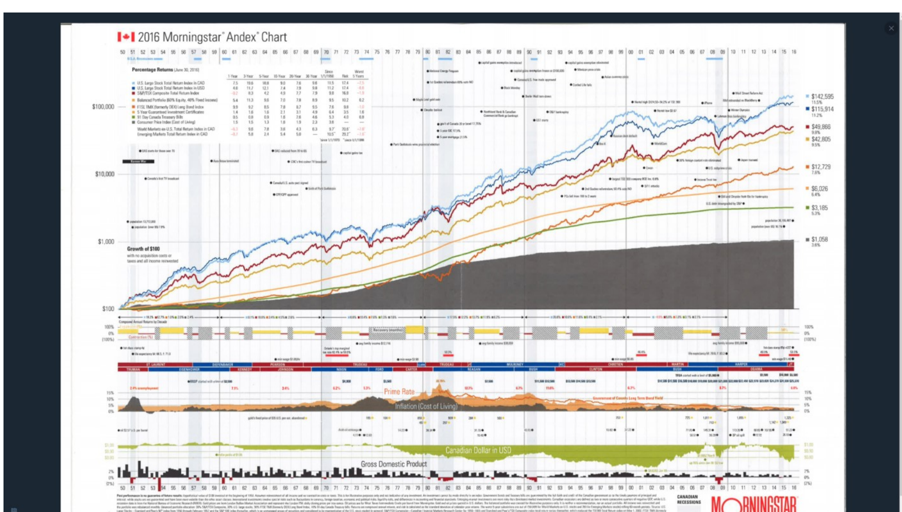
Journalists' articles are often counterproductive and counterintuitive to an investor's actions. Journalists write headlines to inspire readers to read the article in detail. Being bombarded by so much news from so many sources, readers often stop at the headline. We know the market dropped 800 points but unless we are in tune with the market on a daily business, we may not understand this is not a bad thing and may be a great time to invest more capital.

A journalist will also try and illicit emotion from readers, but as any successful investor will tell you, emotions in the stock market must be contained, reduced or better still, eliminated. The management of emotions is accomplished by logically dealing with quantified numeric data.

Brian Yacktman, portfolio manager of the YCG Enhanced Fund sees this volatility as an opportunity to buy stocks at cheaper prices. Rob Sheinerman, CEO of AIG Retirement Services said, "When you have volatility like this, you're actually buying the market on sale. That's a great thing."

I couldn't agree more. There are too many catalysts poised to drive the market to new record highs. Unfortunately, many investors tend to overreact to volatile markets. I understand these are stomach churning times and can assault anyone's confidence. Even the most stalwart investor questions their rational investment strategy and often makes irrational portfolio decisions during highly volatile markets. The most successful investors will follow the daily drama but stick to the strategy that was established during calmer times. This is when patience and not panic will pay dividends over the long term. You are likely to be pleased with the long-term numbers of your underlying investments and more likely than not, they have gone through many times like we are experiencing today.

High quality mutual funds with a proven track record may be pulled down with all the market turbulence, but usually with lower drawdowns and price fluctuations. This may be the time to meet with your advisor to review your portfolio and give it a facelift. You may be sitting on an underperformer that may be sold for a capital loss and buy another stronger but previously undervalued fund.



EDITORIAL COMMENT-CONTINUED

The best advice I can offer during times of extreme volatility is that dramatic markets make for great headlines, but they need perspective. Extreme volatility is typically a short-term phenomenon that occurs when the markets are trying to find a direction. It is often measured in days, weeks or months, but over the years the market patiently advances forward and upward. Any long-term stock market index chart I have ever seen has always shown a return line that clearly begins at the bottom left of the chart and ends at the top right of the chart. The longer the chart, the smoother the ride.

The media coverage of the volatile markets can range from end-of-the-world sound bytes to rational and insightful analysis.

This is not the time to make investment decisions that run contrary to your risk appetite based on sensational headlines. Resist getting sucked into the herd mentality during turbulent markets and fall back on your long-term strategy. If you have concerns, meet with your Financial Advisor to ensure your investment strategy is structured to withstand these turbulent periods and if changes should be made, make sure they are done with the support of financial data and rational minds.

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RRSP vs TFSA—The Ongoing Debate—Continued

Registered Retirement Savings Plans (RRSPs) were created in the 1950's as a method of providing Canadians with their own private savings plan for retirement. They offered similar tax advantages for non-members of pension plans. Essentially, the foundation of the RRSP is income deferral. Instead of spending current income, it is invested within an RRSP and throughout retirement an income is withdrawn.

Again, the key benefit is income tax deferral; both in terms of the income reduction achieved by the amount contributed to an RRSP as well as the deferral of tax on the income earned within the RRSP. Ultimately, income tax only comes into play as funds are withdrawn from the RSP; also known as 'income in and income out'.

About 50 years later, the Tax Free Savings Account (TFSA) was born; with an emphasis on savings as opposed to income replacement. The basis of the TFSA is to set aside today's (taxed) income for future needs, while enjoying tax-free earnings and withdrawals.

It is understood that the RRSP and TFSA are quite different, yet complementary products. But what persists is the constant comparison and competition with one another. It is believed that this may have begun when the 2008 budget stated the following: "An RRSP is primarily intended for retirement. The TFSA is like an RRSP for everything else in your life." However, when it comes to savings, it would be far more accurate to compare a TFSA to an open, or non-registered savings account as opposed to an RRSP.

In non-registered accounts, all earnings and gains are subject to annual tax; on the contrary the TFSA has annual contribution limits that allow after tax income to be set aside in a vehicle where it enjoys tax-free growth.

Tax rates at the time of contribution/withdrawal seem to be the best basis for evaluating the benefits of either product. Assuming that time horizon and rate of return are held constant, while contributions for RRSPs are pre-tax and TFSA contributions are after tax, there are several findings that are worth acknowledging.

When an individual's tax rate at contribution time is higher than when money is withdrawn, the RRSP generates a higher end value, net of all costs.

When an individual's tax rate at contribution time is lower than when money is withdrawn, the TFSA generates a higher end value, net of all costs.

When an individual's tax rate at contribution time is the same as when money is withdrawn, the end values for both the RRSP and TFSA will be the same, net of all costs.

Thus, keep in mind that the RRSP was established to provide future retirement income. The notion was that benefits are maximized when income tax rates are lower down the road, and it is under these circumstances that the benefits of the RRSP outweigh the TFSA.

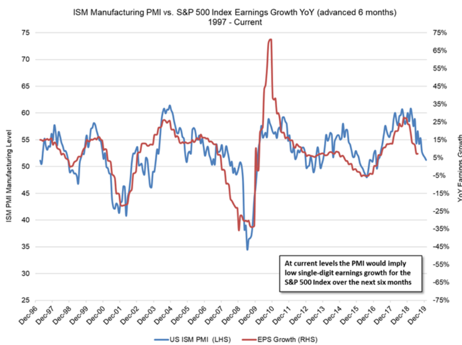
Generally speaking, though it does vary by individual, incomes are generally higher in the working years than in retirement, but this is not always the case or the only variable to consider.

It's important to consider factors such as time horizon, savings goals, retirement age, potentially higher future tax rates; and it is here that the versatility of TFSA comes into play. It is with the TFSA that there are no restrictions on time or motives for saving, and withdrawals are tax free; in fact, this is exactly what the TFSA was designed for.

In summary, it is an individuals' goals that should be the basis for the decision of an RRSP or a TFSA; savings goals, income tax considerations, future income and Government benefits, and so on. Consideration of such factors should shed light on the best allocation for savings, and please be reminded that neither is a good or bad option but it is more about which is more appropriate for ones' unique situation.

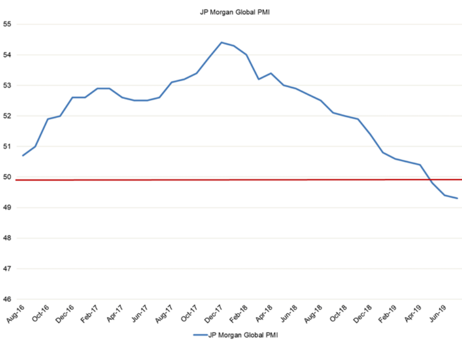
Philip Peterssun—Continued

Nevertheless, it has been an eventful seven days to say the least. What started off with a widely anticipated interest rate cut by the Federal Open Market Committee (FOMC) has morphed into escalated trade tensions between the United States and China with the US Treasury Department labelling China a “currency manipulator”, something they haven’t done since 1994. The move, while mostly symbolic, does nothing to improve the relationship between the two countries following last week’s other announcement from President Trump that will see a 10% tariff imposed on the remaining US$300 billion in goods imported from China as of September 1st. This new tariff is the first one that will directly affect consumer goods such as iPhones and other consumer electronics, sneakers and toys.



Source: Bloomberg, Manulife Investment Management as of August 6, 2019

Not to be forgotten, the Purchasing Managers’ Index figures also came out over the last week and the data, for the most part, was weaker across the globe. The July Institute for Supply Management’s (ISM) Manufacturing Purchasing Manager Index (PMI) registered 51.2, a decrease of 0.5 points from the June reading of 51.7 and below expectations of 52. This is the fourth straight month of decline in expansion and is the lowest reading since August 2016, when the index registered 49.6 percent. Softening this month was primarily due to slower growth in demand and consumption, indicated by the New Orders, Production and Employment indexes. These levels of PMI would suggest muted earnings growth over the next six months and without a marked turnaround in PMI, weak earnings growth is likely to continue into 2020.



Source: Bloomberg, Manulife Investment Management as of August 6, 2019

Equity markets are never shy about showing their displeasure to policy. Yesterday, and the last week, were no exception. On a price return basis, the S&P 500 and the MSCI EAFE Indexes are down -5.6% and -3.5%, respectively since last Tuesday’s close until last night’s close. The S&P/TSX, which had the benefit of being closed yesterday, is down -1.2% from last Tuesday to Friday. Today we have seen some retracement of equity markets but it by no way mean that we are out of the woods. This may be simply very short-term buying rather than a resumption of the previous rally. Without some positive news to trigger a reversal of the fundamentals we fear any rebound may be short lived.

In our January note, Travel with caution, not fear, we highlighted our view of increased recession risk probability for the US economy at 30% for 2019 and into 2020. Risks of recession were still low in our opinion. However we did view the risks as higher than 2018 on the potential for a policy mistake, not by the Federal Reserve, but rather by the current administration. Rising political tensions between the US and China fit that bill and in our view increase the probability for greater global economic weakness through the back half of 2019.

The Capital Markets & Strategy Team has been expressing a more cautious tone since the start of the year as the macro environment continued to weaken and the uncertainties continued to mount. In our view, the upside potential presented by equities (US & Canadian) over the coming 12 months is not enough to compensate investors for the downside risks. In other words, we think the potential for the coming year is below-average while the risks are average-to-above-average. As such, we took the step at the end of the second quarter to reduce our equity weight in our model portfolio by 10% to an underweight at 50%. The fundamentals that led us to this decision include weakening global purchasing manager’s indices, falling export growth, inventory overhang, and a weakening earnings growth profile to name but a few. Please see our Investment Note for further insight as to why we favoured a defensive posture even before the most recent turn of events. For the time being, we continue to favour a more risk-off posture until the geopolitical and fundamental environments improve. This would include a greater emphasis on fixed income, high quality investment grade sovereign and corporate debt and an underweight to equities while favouring dividends and dividend growth stocks.

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Daniel Arsenault—Continued

With only one exception, the chart shows that the same assets rarely perform in the same part of the chart year-over-year. The top performing assets one year are the worst in some years, and vice versa. By spreading your money across different asset classes and investing for the long term, investors experience the returns generated by the highest performing asset classes, without needing to guess which ones they might be.

2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	YTD
Global Govt Bonds 9.6%	Global HY Bonds 58.2%	Canadian Equity 17.6%	Canadian Govt Bonds 10.2%	Global HY Bonds 19.5%	US Equity 41.3%	US Equity 23.9%	US Equity 21.6%	Canadian Equity 21.1%	Asian Equity 23.0%	US Equity 4.2%	Canadian Equity 13.4%
Canadian Govt Bonds 9.0%	Floating Rate Loans 50.2%	Global HY Bonds 15.1%	Canadian Corp Bonds 8.2%	European Equity 16.5%	European Equity 33.6%	Canadian Equity 10.6%	Asian Equity 17.6%	Global HY Bonds 15.7%	European Equity 17.3%	Global Govt Bonds 1.9%	US Equity 9.6%
Global Bonds 5.7%	Canadian Equity 35.1%	Asian Equity 10.9%	Global Govt Bonds 6.4%	Asian Equity 14.2%	Asian Equity 19.5%	Global Govt Bonds 9.4%	European Equity 16.5%	Floating Rate Loans 9.9%	US Equity 13.8%	Canadian Govt Bonds 1.5%	Canadian Neutral Balanced 7.9%
Canadian Corp Bonds 0.2%	Global Neutral Balanced 17.7%	Floating Rate Loans 10.1%	Global Bonds 6.3%	US Equity 13.4%	Canadian Equity 13.0%	Canadian Govt Bonds 9.3%	Global Neutral Balanced 4.4%	US Equity 8.1%	Canadian Equity 9.1%	Canadian Corp Bonds 1.1%	Global HY Bonds 7.9%
Canadian Neutral Balanced -16.0%	Asian Equity 16.8%	US Equity 9.1%	US Equity 4.6%	Floating Rate Loans 10.4%	Global Neutral Balanced 11.7%	Asian Equity 9.0%	Canadian Govt Bonds 3.8%	Canadian Neutral Balanced 7.6%	Global HY Bonds 7.5%	Global Bonds 1.1%	European Equity 7.4%
Global Neutral Balanced -18.8%	Canadian Corp Bonds 16.3%	Canadian Neutral Balanced 8.8%	Global HY Bonds 3.3%	Global Neutral Balanced 7.4%	Canadian Neutral Balanced 10.5%	Canadian Neutral Balanced 8.8%	Canadian Corp Bonds 2.7%	Global Neutral Balanced 4.3%	Global Neutral Balanced 6.7%	Floating Rate Loans -0.5%	Global Neutral Balanced 7.1%
US Equity -21.2%	Canadian Neutral Balanced 15.6%	Global Neutral Balanced 8.6%	Floating Rate Loans 2.1%	Canadian Equity 7.2%	Global HY Bonds 7.9%	Global Bonds 8.6%	Global Govt Bonds 1.9%	Global Bonds 3.7%	Canadian Neutral Balanced 5.6%	Global HY Bonds -2.8%	Canadian Corp Bonds 5.7%
Asian Equity -27.3%	European Equity 15.3%	Canadian Corp Bonds 7.3%	Global Neutral Balanced -0.6%	Global Bonds 6.5%	Floating Rate Loans 6.2%	Global Neutral Balanced 8.5%	Global Bonds 1.6%	Canadian Corp Bonds 3.7%	Floating Rate Loans 3.6%	Global Neutral Balanced -3.7%	Canadian Govt Bonds 5.5%
Global HY Bonds -29.2%	US Equity 7.4%	Canadian Govt Bonds 6.5%	Canadian Neutral Balanced -0.9%	Canadian Corp Bonds 6.2%	Global Govt Bonds 1.0%	Canadian Corp Bonds 7.6%	Canadian Neutral Balanced -0.2%	Global Govt Bonds 3.6%	Canadian Corp Bonds 3.4%	Canadian Neutral Balanced -4.5%	Floating Rate Loans 5.0%
Floating Rate Loans -30.7%	Global Bonds 5.0%	Global Bonds 5.0%	Canadian Equity -8.7%	Canadian Neutral Balanced 6.0%	Canadian Corp Bonds 0.8%	Global HY Bonds 3.3%	Floating Rate Loans -0.5%	Asian Equity 1.3%	Global Bonds 2.6%	Asian Equity -5.7%	Global Bonds 4.1%
European Equity -33.0%	Canadian Govt Bonds 1.6%	Global Govt Bonds 3.8%	European Equity -8.9%	Global Govt Bonds 5.4%	Global Bonds 0.6%	Floating Rate Loans 2.5%	Global HY Bonds -2.0%	Canadian Govt Bonds 0.9%	Canadian Govt Bonds 2.2%	European Equity -7.2%	Global Govt Bonds 4.0%
Canadian Equity -33.0%	Global Govt Bonds 1.2%	European Equity -1.5%	Asian Equity -13.0%	Canadian Govt Bonds 2.6%	Canadian Govt Bonds -2.0%	European Equity 2.3%	Canadian Equity -8.3%	European Equity -3.8%	Global Govt Bonds 1.8%	Canadian Equity -8.9%	Asian Equity 3.8%

Source: Morningstar Direct, as at May 31, 2019, in CAD.

Seek broad exposures for consistent performance

Simply diversifying your portfolio evenly across asset classes may improve returns and lower risk in your portfolio relative to trying to pick winners. A slightly better choice is to purchase a balanced fund, which shows consistent performance near the middle of the chart in every time period. The main reason for this consistency is that balanced funds invest across all of the different asset classes – equities, bonds and cash – and so gains exposure to high-performing assets when they do well.

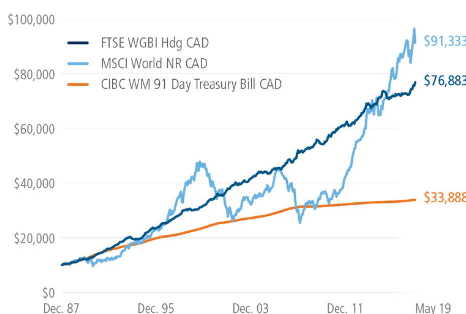
Balanced funds have two advantages over simple diversification:

1. They give the most risky assets less money than the less risky assets.
2. Balanced funds allocate money to the assets where market opportunities are the best relative to the risks in those assets.

Balanced funds can be used as an anchor for the rest of your portfolio, or as an easy solution for do-it-yourself investors who prefer to have professionals manage allocation across assets. In either case, balanced funds can act as the core of a portfolio to help grow the hard-earned capital of an investor.

Balancing risk and return is tricky

Growth of $10k FTSE WGBI Hdg vs MSCI World vs CIBC WM 91 Day T-bill



Source: Morningstar Direct, as at May 31, 2019.

Over time, the exposure to risk from global equity markets has produced larger returns for investors, but it has not been without major drawdowns of returns, sometimes losing as much as 50%. On the flip side, current low interest rates mean that cash returns are less than 1%, which is lower than the rate of inflation. Prices of groceries and other consumer goods are rising by far more than the interest we are getting on deposits.

To ensure that investors have enough retirement savings, or for whatever their financial goals are, they need to invest in more risky equities, income-paying bonds and more stable cash assets. The balance between these assets depends on how much risk the investor wants to take.

Balanced funds will invest in equities, bonds and cash in a way that reflects a consistent risk profile over time. This helps to maintain a consistent client experience. Investors should consider purchasing balanced funds to have professional money managers provide a consistent risk profile so they can pay attention to the parts of their life that are more important.

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Disclaimer

Alex Bellefleur—Continued

China retaliated by directing state buyers to cease purchases of U.S. agricultural products and by allowing the country's currency, the yuan, to breach the psychologically important level of 7.00 against the U.S. dollar. The U.S. Treasury Department then retaliated by labeling China a "currency manipulator", a designation which can be used to impose further sanctions on China, such as more and steeper tariffs. All in all, this is a significant escalation in the protracted trade war between the two countries.

The first response to this escalation likely will come from the Federal Reserve. The recent July 31st Federal Open Market Committee disappointed investors, who had been looking for a more aggressive easing stance on the Fed's part. While the central bank did cut rates by 25 bps, communications from Fed Chair Jerome Powell appeared out of tune with market expectations, especially when he mentioned that the rate cut was a "mid-cycle adjustment to policy" and not the beginning of an easing cycle. President Trump has made no secret of his desire for lower rates, leading some to interpret the recent escalation with China as a way of pushing the Fed into more easing. Either way, we think that the fall in growth and inflation expectations which resulted from the recent trade flare-up will push the Fed to do more in the near term, both on the communications and on the policy fronts. In our recent economic outlook, we mentioned a high probability of interest rate cuts heading into 2020. The recent trade events have increased this probability even further, in our view.

On the Chinese side, policy makers appear to have adopted a less conciliatory approach in dealing with U.S. demands over the last few months. However, we would be careful in reading too much into the recent yuan move. Tariffs impose a cost on the global economy and the global trading system, while currency moves can help to cushion the blow. In this context, the yuan's recent depreciation is a natural adjustment to the new information about higher tariffs. In general, given the current context, we view the currencies of export-oriented, trade-dependent countries or areas as most vulnerable to the imposition of higher tariffs. This is the case, for example, of the euro or the Korean won.

What can investors do to protect their portfolios against short-term flare-ups in volatility such as the most recent one caused by the trade war ? We think the first line of defense resides in building robust fixed income allocations that have sufficient duration to withstand equity market drawdowns. This is something the Multi-Asset Strategies Team did in the second quarter of this year, by adding to our fixed income position in anticipation of disinflationary trends and rate cuts by central banks. Long-term government bonds are continuing to represent the best diversifier of equity risk and having exposure to the asset class remains a strong protection against volatility spikes. Another way in which investors can protect portfolios is to have exposure to foreign currencies and foreign assets, which can help to diversify the cyclicality that is inherent to the Canadian dollar.

For now, we see the latest round of tariffs as a negative for global growth, but not yet one which will topple the United States economy, which has proven to be more resilient than other more export-oriented regions (such as the Eurozone and Asia, where slowdowns had already taken hold well before the tariff announcement). We expect that increased central bank support will help soften the impact of the higher tariffs. We are monitoring these events very closely, continually evaluating any impact to our growth expectations and to our asset class return expectations.

Joe Jugovic—Continued

The Fed then shifted its tone and said it would stop raising rates, leading to a rally in stock and bond markets. Growth names were in favour, because in a lower growth environment (stemming from the trade war), investors are willing to pay more for these companies. Investors also gravitated towards low-volatility companies that tend to perform well even when there's weak global growth. These are quality companies that we would love to own, but their valuations are at record highs.

The "T" intersection to us means that, from the Fed's point of view, everything has changed because of the trade war. If this issue didn't come up in Q4, the Fed would likely have continued tightening.

Why Invest at current valuations?

All else being equal, if the average P/E holds, stock markets are reasonably valued relative to bond markets around the world, and that's been the biggest support for equities we've seen in the last six months. But when you look at other valuation metrics, the market is valued much higher than average, so we do want to be very careful. We don't think it's a good time to be taking aggressive positions. The last six months have seen a significant rally following the decline in Q4, so it's more challenging to put money to work. That said, there are quality, out-of-favour stocks trading at attractively low multiples, and we're looking to fill the portfolio with these names.

What Sectors are compelling?

Areas of the market that are economically sensitive. From the end of last year to now, we've seen the Fed move from tightening to a pause to loosening. The market gravitated towards growth stocks and shunned higher-volatility names. Over the last six months, U.S. and global markets have diverged to a great degree. Growth sectors, such as technology, have very high multiples and expectations remain high.

These growth expectations are driven by near record profit margins; since profit margins are generally mean reverting, we want to be careful to put high multiples on high-profitability companies with high expectations. Even if these companies can generate solid returns, the potential downside may far outweigh the upside. We're finding opportunities in industrials and cyclicals, including the banks. Falling rates are not positive for the banks, which creates an opportunity. Many of these companies have good balance sheets and are trading at very low multiples

What happens if the trade issue is resolved?

The rationale for the growth/low-volatility trade over the last six months would no longer be in place, because in 6–12 months the Fed could very well take the view that the U.S. economy is doing as well as it was last year. We think it's too soon to assume that the U.S. is going to go through another downward yield cycle. We want to be much more cautious: right now the trade war is the main issue, and if it gets resolved you may actually see economic growth pick up in the U.S. and globally, which would mean rates likely moving back up - Rising rates would be positive for cyclicals, industrials and financials, which is where we're positioned

Recession Or No Recession, That Is The Question—Continued.

We see things a little different. Our view is that we don't believe that the economy will suddenly fall into a recession. We believe the current U.S. slowdown is the normal, albeit delayed response from the Federal Reserve's policy tightening that began a few years ago. Monetary policy very rarely has an immediate impact on the economy. It tends to come in waves over a long period of time.

Over the last two years the Fed has raised interest rates by 200 basis points (2 percent). It also shrank the size of its balance sheet by five percentage points relative to the Gross Domestic Product. These are not trivial numbers, especially when you factor in the fact that inflationary pressures have basically been non-existent.

After all this kind of tightening, it is perfectly normal for the U.S. economy to take a step back, especially after the fiscal stimulus-inducing burst of growth it has experienced over the last year. What we find interesting is that growth seems to be at about the level it was in late 2016, when the Federal Reserve resumed its tightening campaign after taking a one-year break. The difference is that today, the Fed tightening seems to have ended and the central bank has turned a new page and seems to be signalling a shift to an easing cycle. It is important to note that the Fed rarely has ever cut rates just one time so, we can expect more cuts in the future.

Although the markets are experiencing extreme volatility, we have always believed that excessive volatility is the market trying to find its direction. With the Fed going into an easing mode, our opinion is that when the dust settles, the market will continue moving upwards to new highs.

Following is a chart of the Pros and Cons in the U.S. economy.

Cons:

- Inverted yield curve has historically signalled that a recession is on the horizon
- Loss of growth momentum in manufacturing
- Capital expenditures/durables cycle is rolling over
- Auto sales are flat at best
- Commodity prices are falling which suggests weak global demand
- The Trade situation remains tenuous
- The reducing unemployment rate seems to be losing steam

Pros:

- A soft landing is currently at play in the housing market
- Lower interest rates will stimulate mortgage refinancing and housing activity
- More Fed easing is expected
- Labor market internals like the quit rate and job openings are still solid
- Consumer financial positions remain quite favorable
- The low inflation rate suggests there are few excesses and no overheating in the economy
- Credit markets are resilient, and banks are still willing to finance corporate and personal debt

While we are respectful of the historical significance of an inverted yield curve, we would like to highlight a number of variables which seem to be inconsistent with historical inversions that led to recessions.

Historically, an inverted yield curve is a primary signal that real policy rates have become too high. It usually occurs under conditions where lending is becoming more restrictive and access to credit is becoming more difficult. In most cases, high yield credit spreads are worsening, and the labor market is beginning to deteriorate.

What A Record Breaking Expansion Looks Like—Continued.

These are not the conditions that surround the recent yield curve inversion. High-yield spreads are behaving as they should be, and real interest rates are very low, hovering just above zero. J.P. Morgan equity strategists led by Mislav Matejka have stated: “Put together, the curve inversion might be more an indicator of extreme market nervousness at present, of increasing central banks action, skewed bond ownership, and of global search for yield, rather than a sure sign that US is about to enter a recession.

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J.P. Morgan anticipates that equities will reach new highs into the first half of next year.

This sentiment is shared by The Economic Outlook Group’s chief global economist Bernard Baumohl. Baumohl stated, “All eyes should therefore be laser focused on what households are thinking and doing in the coming months – and not on some tampered yield curve.”

Baumohl sees just a 30% chance of a recession over the next year or two because: “Low unemployment, rising real wages, moderate energy prices, the surge in mortgage refinancing and the 7.3 million job openings firms are still desperate to fill – all suggest that consumers will continue to spend enough to contribute to GDP growth even as businesses retrench.”

On that note, retail sales numbers bulldozed right through expectations in August.

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