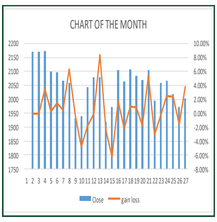
KPW LIFE PLAN—IMAGINE YOUR FUTURE

VOL. 9, ISSUE 1 JAN 2020

"INVESTORS SHOULDN'T STAY ON THE SIDELINES IN THE 2020 MARKET, 'CASH IS TRASH'" *- Ray Dalio*

Sergio Simone
EDITORIAL COMMENT

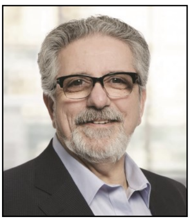
Kristina De Souza
WHAT WAS, IS AND MAY BE



2020 OUTLOOK: KEEP AN EYE ON EARNINGS

Ryan Simone, CLU, CHS
MACRO THEMES AND GLOBAL EVENTS TO INFLUENCE 2020

Editorial Comment



Sergio Simone

I recall an old joke about Financial Planners that stated that: "A great Financial Planner was one who could manage your money in such a way that it would run out on the same day that you did." With today's low interest rate environment and the fact that people are living longer in their retirement years, this has become a daunting challenge for even the best Financial Planners.

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What Was, Is, And May Be

Kristina De Souza

Welcome to a new year and a new decade. I would like to provide you with a brief overview of some key investment market developments over the past quarter and for 2019 as a whole, as well as some insight into the factors that may affect markets in the coming months.

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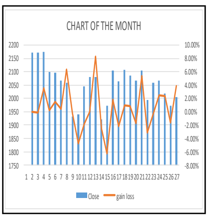
2020 Outlook: Keep An Eye On Earnings



The business cycle is in the late phase, but slow and steady growth could continue.

The future trajectory of asset prices will likely depend on the evolution of 3 major factors—the business cycle, liquidity and market technical, and asset valuations.

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Macro Themes and Global Events to Influence 2020 Markets

Ryan Simone, CLU, CHS

First off, I'd like to wish everyone a happy new year! As investors, it's that time of the year where we look at the world around us and look for those themes that may influence global markets in the year ahead.

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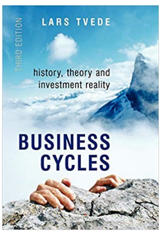


BOOK OF THE MONTH

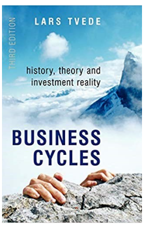
FUND OF THE MONTH LAZARD GLOBAL COMPOUNDERS

KPW 2020 MARKET OUTLOOK

the balance

BLOG OF THE MONTH THE BALANCE

BOOK OF THE MONTH

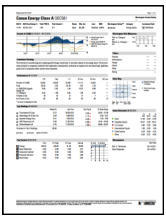


Business Cycles

—By Lars Tvede

This entertaining book describes the global history of economic fluctuations and business cycle theory over more than 300 years. It explains the core of the problem and shows how cycles can be forecast and how they are managed by central banks. The book concludes with detailed studies of how sub-sectors of stocks, bonds, hedge funds, private equity funds, gold, exchange rates, real estate, commodities, art and collectibles fluctuate over different categories of business cycles.

FUND OF THE MONTH



Lazard Global Compounders Fund

The fund seeks to generate strong relative returns over a full market cycle by investing solely in what Lazard calls "Compounders". These are the world's leading companies that can generate, and sustain, the highest levels of financial productivity. (i.e. Return on equity, return on capital, and cash-flow return on investment.

KPW 2020 MARKET OUTLOOK

2019 was one of those years that ended too soon for us. After a rocky patch to end 2018, it was followed by an absolutely stellar year. Considering the media would have had us believe that trade wars, Fed tightening, Brexit, China, the auto sector, inflation, or impeachment would have created a long drawn out recession in 2019. The fundamentals prevailed and many investors saw returns north of 20%. We believe that the outlook for the global economy in 2020 will continue to expand though nowhere near the pace of 2019.

Continue Reading

the balance

BLOG OF THE MONTH

US ECONOMIC OUTLOOK FOR 2020 AND BEYOND

The U.S. economic outlook is healthy according to the key economic indicators. The most critical indicator is the gross domestic product, which measures the nation's production output. The GDP growth rate is expected to fall below the 2% and 3% ideal range. Unemployment is forecast to continue below the natural rate. There isn't too much inflation or deflation. That's close to a Goldilocks economy.

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PRIVATE WEALTH

INFORMATION AND SOLUTIONS FOR HIGH NET WORTH INVESTORS

A GENERATIONAL SHIFT: FAMILY WEALTH TRANSFER REPORT 2019

By the year 2030, more than $15 trillion in wealth will be transitioned from one generation to the next. For organizations seeking to understand and engage with the world's wealthiest individuals, A Generational Shift: Family Wealth Transfer Report 2019 provides unique intelligence to understand how current wealth patterns will evolve over the next decade.

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WHAT ULTRA HIGH NET WORTH CLIENTS WANT FROM WEALTH MANAGERS

"Quality, not quantity" is usually a guiding principle for effective content strategies. But in today's data-saturated world, wealth management firms are instead often tempted to opt for the bombardment approach, making it difficult for clients to distinguish the "need to know" from the irrelevant.

Yet for the most valued clients—the ultra high net worth (UHNW) with over $10 million in investable assets—high quality information has never been so important.

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THE QUIET (AND LAUDABLE) INSURGENCY BUILDING AMONG THE WORLD'S MEGA-WEALTHY MILLENNIALS

On a crisp morning last October, a few dozen students with wildly diverse backgrounds and expertise filed into the red-brick building of Harvard University's Kennedy School. Three things united them: they were young, they wanted to do good and they were all staggeringly wealthy.

The group was attending a joint course run by Harvard and the University of Zurich, in collaboration with the World Economic Forum, called Impact Investing for the Next Generation.

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HIGH NET WORTH INDIVIDUALS—PART II
By Hilary Henly, FCII

In 2018, there were approximately 42 million adults (0.8% of the global population) who owned more than US$1 million of net worth, and whose combined net worth was about US$142 trillion, equating to 44.8% of global wealth. Of countries with the high-est average wealth per adult, the US is ranked third, with an average wealth of US$403,974 per adult in 2018. The US has the highest amount of ultra high net worth individuals (UHNWI), numbering about 70,540 people with net assets above US$50 million, representing 49.1% of the total UHNWI population. China is now in second place with 16,511 UHNWIs

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FUND MANAGER COMMENTARY

MANRAJ SEKHON
FRANKLIN TEMPLETON

PHILIP PETURSSON
MANULIFE INVESTMENTS

AVERY SHENFELD.
CIBC CAPITAL MARKETS

JASON MAYER
SPROTT ASSET MANAGEMENT

Manraj Sekhon, Chief Investment Officer

Templeton Emerging Markets

2020 OUTLOOK FOR EMERGING MARKETS EQUITY

While US-China trade issues still haven't been resolved, there are reasons to be optimistic about the prospects for emerging markets in the coming year.

Continue Reading

Philip Petursson, Chief Investment Strategist

Manulife Investments

Oil And The Bullish Case For Canada

My son is working on a history project where he has to answer the question, "Was the assassination of Archduke Franz Ferdinand of Austria a cause or catalyst to World War I?" I can barely remember my WWI history, so when asked my opinion, I offered an honest and only response I could: "I have no idea, but it sounds like an interesting question."

Continue Reading

Avery Shenfeld, Managing Director and Chief Economist

CIBC Capital Markets—"Live Long...and Prosper?"

Readers from the planet Vulcan, or more likely, Star Trek fans, will be familiar with the title of this outlook, but perhaps only the first half of the traditional greeting will be fully realized in 2020. By overcoming recession risks, both the US and Canada would be continuing on what has indeed been a long lived expansion

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Jason Mayer, Senior Portfolio Manager—Sub-Advisor

Sprott Asset Management LP

NINEPOINT RESOURCE CLASS COMMENTARY

Global debt continues to grow and hit levels never seen before. No lessons were learned following the 2008 Global Financial Crisis. Total global debt is $250 trillion, up $70 trillion over the last decade. Global debt to GDP now stands at a staggering 320+%. Growth in debt has been rampant across all economies. In the US, non-financial debt totaled $54 trillion at the end of September 2019. This is 20% above 2007 peak levels and 70% greater than the 2000 peak level. More recently, debt growth has been accelerating. US Non-financial debt totaled $49 trillion at the end of 2017. $5 trillion was added in approximately 18 months, which equates to a staggering $420,000 per US household. Growth in debt amongst emerging countries is even more astonishing. EM aggregate debt is at $55 trillion, a 54% surge since 2010. Chinese debt has accounted for the bulk of global debt growth. Chinese Debt to GDP has grew to approximately 300%, an increase of almost three-quarters since 2010.

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Getting Out Of Debt Remains Canadians' Top Financial Priority In 2020

For the 10th consecutive year, debt repayment is the top

Fed's Mester, Who Warned Of Inflation Risks, Says Current Policy 'Well Calibrated'.

Cleveland Federal Reserve

Bankrate's 2020 Interest Rate Forecast: Rates Expected To Remain Low In The New Year

Following a year of declining

Mr. Market Isn't So Foolish, After All

You and Mr. Market jointly own a private business. Each day Mr. Market announces the amount he

TFSAs Are Great, But Could Be Better: Report

C.D. Howe offers recommendations that would benefit young and old investors.

Positioning Portfolios For A Slowdown

Investors are in for a challenging year as they try to balance the risk of escalating global

IMF Trims Global Economic Outlook But Softens Risk Warnings

While risks have eased, the IMF was clear that there's still plenty to worry about.

The 2020 Asset Allocation Outlook

A modest pickup in global growth is expected to greet investors in 2020. While his optimism has

LGT Asset Allocation—January 2020

The increased geopolitical uncertainty is an additional risk factor for the stabilization of the global

MORNINGSTAR

CANADA'S 2020 OUTLOOK

Learn what asset managers think will happen next year.

Vanguard Canada—Canada a bright spot among developed economies.

RBC

NAVIGATING THE 2020s
How Canada Can Thrive In A Decade Of Change

GREENER, GREYER, SMARTER, SLOWER

The 2010s was a decade of recovery and restructuring. Post-crises, the global economy struggled to generate sustained growth, while the emergence of new technologies—cloud computing, smart phones, artificial intelligence—began to disrupt every sector. The 2020s could see equally profound change, as those economic and technological trends collide with the growing forces of climate change and demographic disruption.

VIDEO LINKS

Ray Dalio Says 'Cash Is Trash' And Advises Investors Hold A Global, Diversified Portfolio

Fortune Poll: Investors See A 2020 Recession Coming—But Think They'll Make Money

Lower Taxes, New RRSP Rules And New Annuities Among 2020 Personal Finance Changes For Canadians

BlackRock

2020 GLOBAL OUTLOOK
TESTING LIMITS

Growth should edge higher in 2020, limiting recession risks. This is a favorable backdrop for risk assets. But the dovish central bank pivot that drove markets in 2019 is largely behind us. Inflation risks look underappreciated, and the lull in U.S.-China trade tensions could end. This leaves us with a modestly pro-risk stance for 2020.

EDITORIAL COMMENT-CONTINUED

Leger Marketing Inc. recently completed a poll that concluded that one of the top fears retired Canadians have is that they will outlive their money. Twenty-five years ago, the spread between inflation and a five-year GIC was better than 5%. A retiree could invest their entire portfolio and get guaranteed returns that would grow more than the cost of living as inflation fell during their locked in, guaranteed return periods.

Times have changed. Interest rates perpetually trend below the cost of living so that when you take income tax on the interest into consideration you will be going broke slowly. At the time of writing this, RBC's non-redeemable 5-year GIC is paying 2.0% annual return. Inflation is projected to be around 1.9% in 2020. So, if you invested $100,000 in a 5-year GIC at 2% annualized return you would earn $2,000. Assume a 40% tax bracket and you are paying Canada Revenue Agency $800 on this gain. Deducting a 1.9% rate of inflation and you are left with a spending power loss of ($700) on your $100,000 investment.

According to **countryeconomy.com**, life expectancy for a Canadian male in 1995 was 75.2 years. Today it is more than 80 years old. Given this trend it is obvious that a retiree will find it more difficult to invest their portfolio in a guaranteed return that will enable them to be fiscally soluble throughout their retirement.

Over the last decade investment industry regulators have rightfully focused on seniors and the potential dangers or risk within their portfolios. Investment suitability for seniors was at the forefront of a Mutual Fund Dealers Association of Canada sweep of advisor's clients targeting high-risk investment recommendations to senior clients. The MFDA issued guidance that advisors should be vigilant of seniors assuming too much risk in an effort to generate income.

The conundrum faced by advisors was: "Do I recommend a GIC where I know the client will lose real spending power every year, or do I recommend non-guaranteed investments that historically have provided higher returns but come with the risk of experiencing losses to the principal investment?"

Extended longevity has made it all but necessary to invest part of a senior's portfolio in growth mandates that come with inherently higher risks. Steven Sofer, partner at Ottawa-based Gowling WLG International Ltd. says "The 65-year old today could have 30 years left, growth needs to be part of the portfolio for most people."

If I don't recommend growth investments for a senior's portfolio, I may not be doing the best job for my client. The skill of creating the perfect asset allocation for each senior client is paramount for an advisor in the current economic environment. The emphasis today is on "Knowing Your Client" and building an investment portfolio that is suitable to the senior client based on their life-expectancy, health, wealth, risk tolerance and income needs.

For the forty years I have been in this business the investment allocation mantra has always been about the **Rule of 110** which says to take your current age and subtract it from 110, giving you the amount of your portfolio that should be invested in equities. So, someone in their 30s would invest 80% in equities and 20% in fixed income, while someone in their seventies might invest 30% in equities and the balance in fixed income.

A changing market environment since the market collapse of 2008 is challenging the Rule of 110. Historically, investors relied on the fixed income portion of their portfolios to support their portfolios during periods of market stress. Unfortunately, today's low-yield environment has negated much of the value of this benefit. While a portfolio built on the premise of the Rule of 110 may be easier to manage, it is not necessarily in the investor's best interest in today's market environment.

Although the Rule of 110 can still achieve better than GIC returns, since the introduction of low interest rates after the 2009 financial crisis, it has proven to be less effective. That being said, there are still some benefits to this approach.

By sticking to the Rule of 110 and regularly rebalancing your portfolio, could prevent you from making classic investment mistakes like panic buying and euphoric selling.

EDITORIAL COMMENT-CONTINUED

This concept can instill discipline in investors. Perhaps the real benefit of the Rule of 110 is more psychological and less practical. Psychologically, sticking to this strategy can help investors from selling at the bottom when investments are at their worst and buying at the top when investments are likely to yield their worst.

Historically this strategy was presumed to provide investors with the best of all worlds as it provided the potential for growth while offering protection if stock prices fell. But, like Bob Dylan said, “the times, they are a-changing”. The entire financial industry is rethinking this advice with some advisors convinced that the Rule of 110 should go the way of the dinosaurs. They are that the Rule of 110 made sense in a world were equities and fixed income were more negatively correlated. The intent being that bond returns would rise when stock prices fell. Bonds were expected to serve as a hedge against falling stock prices and equities were to hedge against inflation.

Since the financial crisis these two investment classes have become much more correlated so the benefit of owning both classes has diminished significantly. Some would argue that the bond portion of the portfolio should be replaced with other types of assets like high-dividend stocks and riskier bonds, such as municipals and high yield bonds.

If you have been invested following the Rule of 110 and believe it is time to give up the ship, you may want to rethink making any hasty decisions. Never lose sight of the fact that markets are not static. Although the steady, rising stock market of the last decade may feel like the new normal, no one can predict if and when this will change, and even though low-risk investments like bonds may not be offering much in the way of returns, they are still the safest option available.

There are economists that will argue that long-term bonds are likely to become more volatile in the coming years but they will still be less volatile than their stock counter-parts. In my opinion bonds were never about portfolio diversification, they were about portfolio hedging. Bonds should be viewed as a component of risk management.

So we are back faced with the conundrum of a retiree’s concerns of having enough invested assets to provide income to last the rest of their lives. If they over allocate to bonds they risk running out of money before running out of time. On the other hand if they over allocate to equities they risk large drops in their portfolio’s value during their retirement years.

There is no black and white solution to this issue. The best advice I can offer is to make every effort to understand the risks and rewards as they pertain to you as an individual investor and once you implement a strategy to stick to it.

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KPW 2020 MARKET OUTLOOK-CONTINUED

We see no signs of a recession in 2020 and are pushing the danger of recession in the U.S. out at least a couple of years. The Fed's easing will be challenged if the economy continues to grow and a tightening monetary policy may become the catalyst that finally puts an end to this prolonged expansion.

The World Bank and the International Monetary Fund are expecting growth rates of 2.7 percent and 3.4 percent respectively. Much of the rationale comes from the looser approach to the money supply that many of the central banks around the world have adopted.

We don't expect it to be all sugar and honey in 2020. Our portfolios should be structured to expect and withstand surprises like trade wars, market corrections, debt time bombs, and geopolitical uncertainties. Although we expect a positive 2020, it won't come without surprises and those surprises will likely be negative more often than positive. How can we not prepare for this when we see all the downside risks faced by the global economy?

We still have to deal with the fallout from Brexit, China's economic transformation and their willingness to renege on trade deals, sharp market corrections caused by media optics, the massively high debt that nations are amassing as they dive into the new concept of Modern Monetary Theory where printing money is okay as long as inflation is under control. Central Bank interest rates are so low there is little room to maneuver rates to stimulate economies. One of our biggest concerns is the U.S. election later in 2020. Should the Democrats hold onto the house and take the Senate and/or the Presidency, there will likely be increased market turmoil as tax reform is reversed creating a negative shift for corporate profits.

After reading the previous couple of paragraphs you may feel we are heading into economic oblivion, but that is not what we believe. We are leaning towards a few years of economic growth, albeit more subdued than recent growth trends. We expect unemployment and inflation to remain low. The unemployment rate in the U.S. will average around 3.5% in 2020 and when coupled with inflation rates below 2% there is little reason to expect the economy to falter. Right now, the Fed is more concerned about promoting growth than preventing inflation so they will likely keep rates static for 2020.

During 2019 investors looked beyond the geopolitical risks spreading throughout the world. We expect much of the same will happen in 2020. One of the key reasons behind our outlook is that the U.S. economic outlook remains very healthy according to the key economic indicators like Gross Domestic Product (GDP) which measures the country's production output. Although President Trump has promised to increase GDP to 4%, we believe this is very unlikely and that a range of 2% to 3% is more realistic and in fact more appealing to us. We have always believed that slow steady growth is much more alluring than exceptionally rapid rates of growth.

Another key indicator is unemployment. Right now, the U.S. unemployment rate is around 3.4%. We expect this rate to remain static as we expect inflation to remain around the 2% area. We like to refer to this as a "Goldilocks economy." This is an economy that is neither too hot, which might cause inflation, nor too cold, creating a recession. Like the little girl in the Fairy Tale who ate the Bear's porridge that was neither to hot or too cold. It was just right!

How will all this affect you, the investor. 2020 is expected to experience subdued growth with the probability of a recession very low. The aging cycle appears likely to last beyond 2020 and in fact, the de-escalation in the trade war with China and tentative expansion in global manufacturing suggest we may be on the verge of another mini-cycle recovery, especially during the first half of this year. We are convinced that both China and the U.S. are incentivized to reach at least a phase one deal on trade very soon. Being an election year, Donald Trump is further motivated to ink this deal as it will help in his re-election.

As previously stated, we are expecting inflation to remain in check which is likely to keep the Federal Reserve on hold for the year although it wouldn't surprise me if they continued to tighten later in the year if the economy inflates more than expected. Although we feel Trump will get re-elected, if he does not, we will have to rethink our year going forward since the Democratic frontrunners in the primary race have all declared their support to repeal the 2017 corporate tax cuts, which would negatively impact corporate earnings growth in 2021.

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KPW 2020 MARKET OUTLOOK-CONTINUED

Across the pond, the Eurozone should benefit from easier monetary conditions, the recovery in global manufacturing, the lifting of trade-war uncertainty and Chinese policy stimulus that increases import demand from emerging markets. We expect a moderate and gradual escalation of growth across the Eurozone during 2020. The absence of inflation will continue to support the economy by keeping interest rate increases at bay. Overall, we will begin overweighting allocation to the Eurozone during 2020.

At home, Canada has become recognized as an outlier when it comes to central bank easing. This is evident in the fact that Canada has the highest policy rate in the entire G7 and the Bank of Canada still resists cutting rates despite softening global and domestic economic conditions. This hesitation may somewhat be fuelled by a fear of inciting more household debt. We feel that despite the Canadian housing market displaying a reacceleration, lackluster consumer and investment trends will likely force the Bank of Canada to reconsider their policy and cut rates. If this comes to be there is a likelihood that the CDN$ will fall against the US$ in 2020.

Based on our world economic views we are still optimistic about the U.S. economy and will continue to overweight our allocation there albeit by somewhat less than in 2020. The reduced allocation will go to Europe and bring our international exposure to slightly overweight. If Canada begins to ease we will increase exposure otherwise we will remain underweight in Canada.

Our main focus will continue to be equity based since we believe there are more opportunities for gains in equities than in fixed income. Different forms of credit like High-Yield, Investment-grade and Government bonds have all become too expensive and pose a greater risk towards the downside than upside. We will continue to remain underweighted in our fixed income exposure.

In closing I would like to remind our readers that Economic Forecasting is a fool's game that can humble the most intelligent economists. All we can do is take the information that is available to everyone and analyze it using proprietary methods. Our conclusions are based on what we feel are the best probabilities and in no way are meant to be defined as conclusive. I have tried to describe the events that could pose serious risks to our outlook. Nothing is set in stone.

This being said, based on current information our outlook is heavily weighted to the positive side. With some forward progress on trade, continued control of inflation and interest rates, continuing low unemployment and increasing investor confidence, could push our forecast even higher.

The best advice I can offer is to make sure:

Your portfolio is well diversified

Your advisor is approachable and understands the markets

Your advisor has the means to modify your portfolio expeditiously

You don't chase last year's returns or best performers

When the market corrects, and it will, try to understand the reasons before making irreparable moves

Rethink the wisdom of "sitting on cash"

Avoid trying to time the market

And most importantly: **BE PATIENT!**

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What Was, Is And May Be —Continued

Overall, global capital markets exhibited remarkable resilience in 2019, rebounding from a severe decline that occurred in late 2018. Despite starting the year on a tentative note, they ultimately shrugged off a stream of negative headlines and uneasy sentiment to stage a robust recovery, with the fourth quarter capping off a year of broad-based gains across most equity and income asset classes.

Supported by low interest rates, slow global economic progress and healthy corporate fundamentals, global equity markets advanced in the fourth quarter and registered solid results for 2019, with many finishing the year just off their all-time highs. The MSCI World Index rose 6.5% in Canadian dollar terms during the last three months of 2019, bringing its gain for the year to 21.9%. And despite ongoing trade uncertainty and the developing impeachment drama, the S&P 500 Index, a broad measure of the U.S. equity market, was up 6.8% for the quarter and finished 2019 with an increase of 24.8%, including dividends.

Canadian equities also advanced in 2019, with supportive business conditions and strong commodity prices boosting results for most sectors. The benchmark S&P/TSX Composite Index climbed 3.2% in the fourth quarter, capping off an impressive 22.9% gain for the year. Overseas, markets showed a similar trajectory, with European developed market equities advancing amid an environment of easy monetary policy and Brexit uncertainty, and many markets in Asia posting positive results for the fourth quarter and the year as well.

After moving to raise interest rates to a more “neutral” level from their record lows in 2018, the U.S. Federal Reserve reacted to weaker global economic growth and tepid inflation in 2019 by easing monetary policy. The central bank made three 25 basis-point cuts to its target rate through the course of the year, while many other international peers also lowered rates based on global economic concerns. The Bank of Canada, however, charted a divergent course, keeping its policy interest rate steady at 1.75% throughout the year. In this environment, 10-year U.S. and Canada government bond yields drifted higher in the fourth quarter, rebounding from their yearly lows in the third quarter. The FTSE TMX Universe Bond Index, which broadly reflects results for the Canadian government and corporate bond market, registered slightly negative returns for the fourth quarter but a gain of 6.9% for the year.

What’s the outlook for 2020?

Looking forward, many economists and market watchers forecast slow but positive global economic growth over the coming months, while interest rates are also expected to remain low by historical standards. While this type of environment tends to be generally supportive for businesses and asset markets, experienced investors are also preparing for a lower-return environment consistent with a mature business cycle, as well as periods of increased volatility. With valuations for many assets near record highs, a well-diversified, professionally managed investment portfolio can help to maximize returns and mitigate risks as they occur.

I would like to extend my sincere wishes for a happy new year to you and your family. I would also like to thank everyone for their continued trust in Kleinburg Private Wealth and for the opportunity to assist you in working toward your financial goals. Should you have any questions about your investments or the market outlook for the coming year, please remember that I or a member of my team is just a phone call away.

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Macro Themes and Global Events to Influence 2020 Markets—Continued.

There are a few macro themes that will likely take center stage for what moves markets this year. In 2019, much of the volatility we saw went back to the US-China trade war. This year I expect to see discussions move away from the international stage to more domestic affairs like the US presidential election. As the election heats up and the key political players start to emerge, we are likely going to see some extra volatility. For the people managing your funds, this will mean some key buying opportunities, so expect to see increases and decreases in the amount of cash some of your fund managers will be holding throughout the year.

Then there is the outcome of the US election on November 3 and what this could do to markets. Despite the volatility leading up to the election, it stands to reason that a change in the White House probably won't have a dramatic effect on US stocks right away. Even if the democrats win, they will likely face a republican majority in the senate. This means no radical or major changes to upset US and global markets. However, depending on the results of the election it may warrant some adjustments in portfolios in the fourth quarter.

In Canada, I expect the two most influential themes to be about real estate and Alberta oil. For example, 2019's slight interest rate drop and steady population growth will probably keep the real estate market on a growth trend; whereas, Alberta will need to manage an oil supply surplus which could pressure the Bank of Canada to stimulate growth. Unlike the US with its many different economic sectors, Canada's economy is largely made up of real estate and oil. Except for Canadian companies operating globally, most of Canada's market volatility will likely originate from actions and policies created in these two sectors.

Then there are the 'unknowns to consider'. These are the events that pop-up out of nowhere and dominate the news cycle for a few months. Right now, a virus is making its way through China, with cases popping up in countries outside of China, including one case in the US. These are global matters that nobody can accurately time but when they appear, they can have negative impacts on markets because of the uncertainty and fear they cause. I would argue that the Chinese coronavirus is having some impact on the volatility we're experiencing at the time of writing this article when global markets are either flat or negative. As these events occur throughout the year, we must remember that they're effect on the markets and portfolios is fear based rather than fundamentally driven. Although we remain cautious and observant regardless of what is happening, it is best to ignore these headline events when it comes to making decisions about your portfolio.

Finally, if you are of the belief that this is a 10-year bull run (most people are but for an opposing view see Sergio's Dec 2019 article), then you will be keeping an eye out for changes in any of the recession indicators. Personally, I don't see a recession occurring prior to November 2020; however, the US election result is going to be the biggest market influence post-November 2020. With that in mind, we may see a repositioning of portfolio assets in the fourth quarter.

DISCLAIMER

Commissions, trailing commissions, management fees and expenses all may be associated with mutual fund investments. Please read the simplified prospectus before investing. Mutual funds are not guaranteed and are not covered by the Canada Deposit Insurance Corporation or by any other government deposit insurer. There can be no assurances that the fund will be able to maintain its net asset value per security at a constant amount or that the full amount of your investment in the fund will be returned to you. Fund values change frequently and past performance may not be repeated.

Labour Sponsored Investment Funds ("LSIF") have tax credits that are subject to certain conditions and are generally subject to recapture, if shares are redeemed within eight years. Please note that Mutual Fund Representatives in Alberta are not permitted to sell LSIF.

An investor proposing to borrow for the purchase of securities should be aware that a purchase with borrowed monies involves greater risk than a purchase using cash resources only. The extent of that risk is a determination to be made by each purchaser and will vary depending on the circumstances of the purchaser and the securities purchased.

Discuss the risks associated with leveraged mutual fund purchased with an investment funds advisor before investing. Purchases are subject to suitability requirements. Using borrowed money to finance the purchase of securities involves greater risk than a purchase using cash resources only. If you borrow money to purchase securities, your responsibility to repay the loan and pay interest as required by its terms remains the same if the value of the securities purchased declines.

Investors should educate themselves regarding securities, taxation or exchange control legislation, which may affect them personally. This newsletter is for general information only and is not intended to provide specific personalized advice including, without limitation, investment, financial, legal, accounting or tax advice. Please consult an appropriate professional regarding your particular circumstances.

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