Kleinburg PRIVATE WEALTH

Carte WEALTH MANAGEMENT INC.

KPW LIFE PLAN—IMAGINE YOUR FUTURE

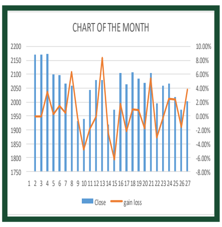
VOL. 5, ISSUE 12 DECEMBER 2016

"Leadership is not about the next election, it's about the next generation."
Simon Sinek

To Page 2 To Links Page

Sergio Simone
EDITORIAL COMMENT

Trump Bump and Asset Allocation



Investor-in-Chief

Ryan Simone

Editorial Comment

Thirty-five years ago, the U.S. was experiencing some of the worst inflation they had ever seen, accompanied by rising unemployment rates. The Fed had one option and that was to raise interest rates to the highest levels in centuries, to combat the runaway inflation rates. As the crisis eased, interest rates began a steady decline causing bond prices to rise. This long, 35-year boom in fixed income markets has likely come to an end.

With interest rates at their lowest point in centuries, and inflation once again rearing its ugly head, there is only one direction that interest rates can go, and that is up. The U.S. has been on the verge of rising interest rates for some time and if Donald Trump sees his mantra of "make America great again", come true, the Fed will have only one alternative to slow down the economy and to do this, interest rates will rise and once rates begin to rise the bond market will suffer most.

Continue Reading

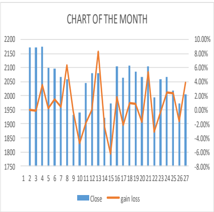
Trump Bump and Asset Allocation

The Trump presidential victory is behind us now and the one take away from his victory about your investment allocations is that his win may well be the catalyst to bring in a late cycle environment. The Trump Bump is already pushing U.S. indices to new highs.

Without question, Donald Trump will likely usher in a new era in U.S. politics. What is not so clear is what this will look like. We can't possibly know with any certainty what his presidency will look like in a year from now, let alone four years, but what we can do is offer some high-probability projections regarding anticipated economic policies that will be enacted based on comments he

Continue Reading

Investor-in-Chief



Stocks did not plunge as many pundits predicted after Donald Trump was elected President. In fact, Wall Street rallied after a brief hiccup earlier in the evening. Perhaps the market is still digesting the prospects of a Trump victory. Perhaps markets will collapse at some future point once his policies are crystallized. The reality is no one knows so we'll just have to wait and see what the newly crowned Investor-in-Chief will do and how investors will react to these things.

Continue Reading

KPW LIFE PLAN—THE 'GIG' ECONOMY

Employment Professionals Canada reports that most adults today will work at 5 to 7 different companies throughout the course of their professional careers, and often through multiple industries. Since graduating high school my wife has worked with no less than five large corporations, with industries ranging from technology to consulting to financial. Each of her employers, former and current, are

Kleinburg Private Wealth
91 Anglewood Ct., Kleinburg, ON L0J 1C0
(905) 893-2540
info@kleinburgprivatewealth.com

Disclaimer

Kleinburg PRIVATE WEALTH

Carte WEALTH MANAGEMENT INC.

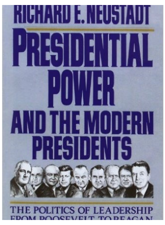
KPW LIFE PLAN—IMAGINE YOUR FUTURE

VOL. 5, ISSUE 12

DECEMBER 2016

To Page 1

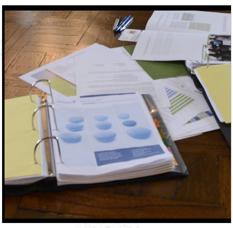
To Links Page



BOOK OF THE MONTH

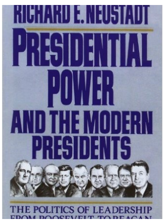
FUND OF THE MONTH GOODWOOD MILFORD FUND LP

INVESTMENT TERMINOLOGY



RETIREMENT PLANNING

Book of the Month



Presidential Power and the Modern Presidents–By R. Neustadt

Presidents have read and assigned this book to their staff for study, as did the instructors of hundreds of thousands of students of government. Neustadt re-examines the theory of presidential power by testing it against events and decisions in the administrations of the later modern presidents who followed FDR, Truman and Eisenhower.

Fund of the Month—Renaissance Floating Rate Income Fund - Class A

The fund's Investment Objective is to generate a high level of current income, primarily through investment in senior floating rate loans and other floating rate debt instruments, as well as lower-rated debt securities of issuers located anywhere in the world. The fund has a low to medium volatility. John Leupp of Ares Management is the portfolio manager. The manager believes the current environment could revert to a "credit pricing" market in coming months, which should provide opportunities in credits that may be trading at yields inconsistent with their risk profiles.

Investment Terminology

TIME LAGS—In economics there is often a delay between an economic action and a consequence. If interest rates are cut, we would expect a bump in investment and consumer spending since lower rates make it cheaper to borrow and also make it less attractive to save. Lower interest rates tend to lead to higher aggregate demand. However, there may be time lags for a number of reasons, such as commercial banks delaying passing the rate cut on to consumers. It is estimated that interest rate changes take up to 18 months to have the full effect. Therefore, time lags tend to reduce the immediate effectiveness of monetary and fiscal policy.

Republican—The 'R' also stands for Recession - by Macan Nia

The dust has begun to settle after Donald Trump's historic win over Hillary Clinton. From a capital market perspective, the whip-saw in U.S. equity markets since the election has been nothing but incredible. On the night of the election, minutes before the clock struck 12 am, futures on the S&P 500 Index had plunged 5% triggering market circuit breakers after Donald Trump was predicted to win Florida and after securing electoral seats in the historically Rust-Belt states of Pennsylvania, Ohio, and Michigan. I went to bed shortly thereafter and was astonished when I woke up to see that global indices had staged a rally and recouped the majority of the losses after Donald Trump's conciliatory victory speech. Since the election, markets have begun to price in President-Elect Trump's policies of US$ 1 trillion dollars of infrastructure spending, reduction regulation and lower corporate taxes, to name a few. As a result, the S&P 500, Dow Jones and Nasdaq have climbed to a trifecta of all-time highs whereas here at home, the S&P/TSX closed at its highest point since June 2015. Bonds also began pricing in a potential reflationary environment with the 10 Year U.S. Government Bond Yield rising from 1.78% to 2.42% and the10 Year Canada Government Bond Yield rising from 1.17% to 1.66% as of time of writing.

Macan Nia, Sr. Investment Strategist, Capital Markets & Strategy, Manulife Investments

Kleinburg Private Wealth Management
Mail: info@kleinburgprivatewealth.com
91 Anglewood Crt, Kleinburg, ONT L0J 1C0 (905) 893-2540

Disclaimer

Kleinburg PRIVATE WEALTH

Carte WEALTH MANAGEMENT INC.

KPW LIFE PLAN—IMAGINE YOUR FUTURE

VOL. 5, ISSUE 12

DECEMBER 2016

To Page 1

LINKS

To Page 2

Bond Markets Everywhere are Getting Destroyed

Bond markets all over the world are getting demolished after the

ECB Adds Half A Trillion Euros in Stimulus

The ECB is adding half a trillion euros in stimulus to the Eurozone economy as it hopes to support growth as Europe

Factors and Economic Cycles

Since 2008, equity volatility has prompted plan sponsors to consider de-risking strategies in an effort to get away from the

Volatility and Credit Spreads

As plan sponsors broaden their horizons on the fixed income front, corporate bonds are playing

Taxes and Life Insurance

If you're like most Canadians, your employer probably provides you with a basic group life insurance policy. There are two main types of life insurance policies:

USD/CAD December 2016 Highlights

It's not hard to see the loonie depreciating from here in the short term. Together with a US

Schwab: Will the Momentum Continue Into 2017?

U.S. equities have held gains seen following the election, while there has been a definitive sector

Italian Referendum: Back to Politics as Usual in Italy

With around 60% of voters opting for a "no" and nearly 70% turnout, Italians firmly rejected a constitutional reform that would have removed power from

Reflections on a Trump Presidency—Blackstone

Like many others, I was surprised by the results of the election. I guess I was persuaded by the polls that indicated that Hillary Clinton would

Here's what 9 Wall Street Pros are Predicting for the Market in 2017

After the worst start to a year ever, the stock market surged to new highs in 2016. All the major

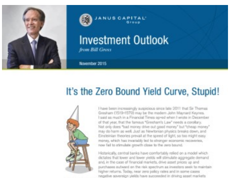
The Outlook for the Markets and Economy in 2017

The seven-year U.S. bull market has new life going into the new year, thanks to a slow moving

What Canadian Housing Market Experts are Predicting for 2017

It's not particularly festive, but it's a holiday tradition for followers of the Canadian housing

Investment Outlook from Bill Gross — Red is the New Green


JANUS CAPITAL Group

Investment Outlook from Bill Gross

It's the Zero Bound Yield Curve, Stupid!

I've got nothing against the national anthems, and I wouldn't kneel even if I was Colin Kaepernick. I just think as a country, "America the Beautiful" might have been a better choice for ours and that in some cases, some words of "The Star Spangled Banner" don't ring true. A few countries' anthems are, in fact, quite pleasing to my ear. "O Canada" has a beautiful melody and words to match, although you'd probably have to be watching hockey to hear it. Our "Star Spangled Banner"? For me—not so much. I can sort of see the "rockets" red glare", but it's hard to sing and quite long—especially if you're waiting for the kickoff. But like I said, I have nothing against it, except maybe the last stanza. Not the Home of the Brave part. Having spent two years in Vietnam, ferrying Navy ...

VIDEO LINKS

Gray Swan Risks that Could Roil Markets in 2017

Markets' black swans are rapidly turning gray.

Can Millennials Ever Get Rich?

Millennials are plagued with higher education costs, low interest rates and high debt levels

Dominant theme for 2017 is US reflation: Campbell

Edward Campbell, QMA portfolio manager & managing director, and Julian Emanuel, UBS Securities executive director of

EVALUATING THE POST ELECTION LANDSCAPE

Positive Developments:

- Solid global leading indicators
- Equities rallied
- Positive earnings season
- Slightly better growth in 2017

Disclaimer

EDITORIAL COMMENT CONTINUED

A financial bubble typically occurs when a security or sector grow in value well beyond what would be considered “fair value”. It is the point where the long-term benefits of holding these positions becomes greatly out-weighed by the risks of ownership.

I feel that we are at this conjuncture in the fixed income market. I am not alone in my thinking. A recent CFA Institute Financial NewsBrief poll indicated that 87% of the 815 respondents also believe that owning at least some types of fixed income no longer makes sense as the market is in bubble territory.

There are some strong warning signs if you pay attention. Since 2008 there has been an unrelenting focus on Quantitative Easing by the US Federal Reserve. During this period, the Fed has struggled with returning interest rates back to normal levels and reduce its balance sheet back to its pre-QE size. Japan has methodically maintained QE levels at about 15 percent of its GDP and recently indicated that it may escalate easing levels even higher soon. Earlier this year Mario Draghi of the European Central Bank increased its QE program by 20 billion Euro in bond purchases per month.

The strategy has been to lift bond prices and therefore reducing interest rates to stimulate the economy. The unforeseen result in Europe and Japan is the anomaly of negative interest rates. This means that the ECB is now paying banks to borrow money. In July, Germany became the second G7 nation to issue a 10-year bond with a negative yield. In fact, a recent Bloomberg report states that more than 80 percent of German government bonds now have negative yields. Why are people even considering investments in a vehicle that guarantees a loss over 10 years. The world is turning upside down. Gregory Peters of Prudential Fixed Income says: “It’s surreal, over $13 trillion of the global bond market is now negative.” Paul Singer of hedge fund giant Elliott Management Corporation concurs that the bond market “is in many ways the most peculiar period we have faced in 39 years”.

This may not all be “Doom and Gloom” as some very smart fund managers have found a way of turning these negative bonds into some hefty returns. For example, PIMCO is buying negative yielding Japanese bonds and using swaps to lock in exchange rates, effectively creating a 400% yield increase on long-only US bonds of similar duration. The problem is that these strategies usually entail greater risk and that’s not generally what fixed income investors are looking for. Nobel Prize winner Edward Altman suggests that “the benign credit cycle is in ‘extra innings’” Sounds like some forewarning that we should be careful about a coming default cycle.

Before I give the impression that all bonds are in bubble territory, not all bonds are the same. Only 30 percent of the above-mentioned survey believe all bonds are in a bubble while another 24 percent feel that it is only sovereign bonds that may fail to compensate investors for the costs and risks of ownership. In fact, not everyone believes we are in a bubble. While many investors may agree with this prognosis, they have heard all the warnings before, only to be confounded by further bond price rises. After all, bonds have been in bubble territory for 30 years, though the situation has intensified since the 2008 Financial crisis.

Just last month, Global bonds suffered their worst monthly meltdown as $1.7 Trillion was lost.

Either everyone is in the dark about the bond market, or we could be on the cusp of the ultimate breakdown that will likely suddenly come out of the blue with a savage intensity. Another frightening occurrence that could propel this crisis further is that traditional asset classes are becoming “un-investable” forcing investors and savers to take more risk just to achieve any return at all.

BACK TO PAGE 1

Kleinburg PRIVATE WEALTH | Carte WEALTH MANAGEMENT INC.

TRUMP BUMP AND ASSET ALLOCATION CONTINUED

made in the past. We can also project what impact these policies will have on financial markets and therefore, the directions we will take in reallocating our client portfolios.

Trump gave many speeches where he stated that U.S. tax cuts were necessary to create fiscal stimulus. The Republican Congress should make these cuts easy to enact. Of course, this will lead to a reduced tax revenue but I'm sure that will be ignored now and addressed at a future time. What might make this a more contentious issue is if he implements a second stimulus concept: increased infrastructure spending. All in all, from my perspective, we are likely to see some combination of lower taxes, greater spending and bigger deficits. As a package this will create a positive demand shock. In economics, a positive demand shock will increase the demand for goods which will lead to higher prices. Greater inflation will lead to the Fed implementing tighter fiscal policies, which usually means higher interest rates.

Trump's cry for "Make America Great Again" is a mantra that will lead to some restriction of international trade. He has stated on numerous occasions that NAFTA will be revisited and that any trade deals would have to benefit the US first. He has talked about slapping large 35% tariffs on imports, especially from American companies seeking lower international tax domiciles. Trump's policies seem to favor a general move away from globalization that has been building since the Global Financial Crisis in 2008. By unwinding some of the efficiency gains the US could face a "negative supply shock" which will have the effect of creating higher prices. Between "positive demand shock" and "negative supply shock", there is little doubt that the U.S. is heading towards higher inflation and higher interest rates.

Fidelity Portfolio Manager, David Wolf, says the *"U.S. is probably a boomlet of questionable sustainability."* This concept is not new in our world today. The world's second largest economy, China, is also implementing similar strategies.

From our perspective, the market direction is obvious. We are heading into a late cycle environment. We have been conscious of a late cycle on the horizon, but now we are convinced it will kick in earlier than previously anticipated.

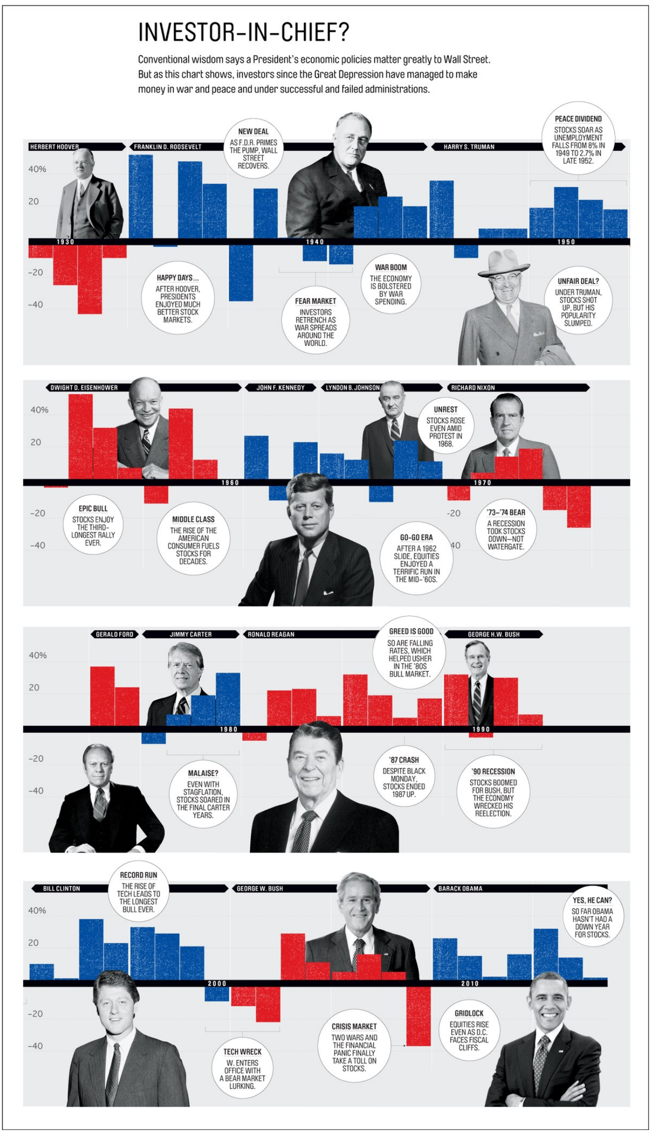
A late cycle environment generally entails higher interest rates which will have a negative effect on fixed income positions. Therefore, we will maintain and possibly reduce our already, lower fixed income allocations.

We have maintained an overweighting to the U.S. dollar which has had a negative impact on portfolios due to the strength of the Canadian dollar, on the back of oil, this year. We will recommend to continue maintaining and possibly increasing our exposure to U.S. allocated mutual funds. Our rationale is that stronger U.S. demand will hurt Canadian exporters and higher longer-term interest rates are a greater threat to Canada's more leveraged household sector. When we weight the risk/reward scenario, it is evident that the balance of risk is tilted towards a weaker Canadian dollar relative to the USD. With the anticipated decline in bonds, their downside risk protection has less value. We feel this protection can be replaced with increased exposure to the U.S. dollar.

Donald Trump's surprise victory has created a lot of uncertainty on many fronts, but it has brought more clarity to the cyclical outlook.

BACK TO PAGE 1 **TO PAGE 2**

INVESTOR-IN-CHIEF CONTINUED



http://time.com/money/

As you can see from the chart, presidential politics seem to have little impact on portfolio returns. There is no evidence to suggest that either a Republican or a Democrat should cause an investor to deviate from their investment strategy. Aside from some obvious tactical rebalancing based on incoming policy changes, investors should stick to their long-term plans.

Brian Jacobsen, chief portfolio strategist with Wells Fargo Funds Management was very clear when he stated: "The President isn't a dictator, just because he or she runs on a platform, it doesn't mean that agenda will be put in place." Even if Trump is able to get his policies passed, the real economy might not cooperate.

History shows that the average compound annual growth rate for equities since 1945 has been 9.7% under Democratic Presidents and 6.7% under Republicans. If we go no further, a Trump victory may be disheartening. In fact it is more complex than this. When you take Congress into account it turns out that the absolute best returns were achieved under Republican Presidents and GOP controlled Senate and a GOP controlled House of Representatives. Now we're talking a 15.1% annual gain in the S&P 500. This pot can be sweetened a little more because of Trump's negative approval rating. When the newly elected President suffers a negative approval rating from just 35% to 50% as, as is the case with Trump, then the Dow Jones Industrial Averages return an additional four points more than when a majority of the country is satisfied.

RETURN TO PAGE 1

TO PAGE 2

THE KPW LIFE PLAN - THE ‘GIG’ ECONOMY Continued.

global corporations with anywhere from tens of thousands to hundreds of thousands of employees. My wife, who is of the millennial generation, is on track to meet the above statistic in which she will work with 5 to 7 different companies. Of those 5 different companies, my wife was only considered a full-time employee with one (her current one). The other four include two paid internships and two contract positions, none of which offered much in the form of a retirement package.

My uncle is a musician. He’s spent most of his life playing ‘gigs’ at various bars, clubs, and arena’s. He was never a full-time employee, he never paid into a pension, and he rarely knew where he’d be working from year to year. He didn’t know it at the time but he was a pioneer in what is now referred to as the ‘gig economy’. He was one of the few black sheep during a time when most people typically worked for one company. I’m sure it wasn’t an easy employment option for him at the time, but today with the rise of such things as Uber and AirBnB, the gig economy is beginning to offer more lucrative, alternative job options. It attracts an increasing number of workers for its variety, flexibility, and choices in what a person does and how they do it.

Today, traditional forms of long-term employment are fading and are being replaced by shorter-term, temporary and freelance positions that make up the ‘gig economy’.

I believe the gig economy is a natural economic progression, unavoidable given such factors as changing demographics, a low rate economic environment, and technological innovation. Consider this: people are living much longer and it has become expensive for companies to fund lengthy pensions for tens of thousands of employees or more. Especially when global rates are at an all time low for many developed nations with large work forces. Increasing the number of contract employees and reducing full-time employee numbers adjusts for the increasing costs of an aging population in a low-rate economic environment.

A combination of evolving family structures (especially in respect to increasing numbers of women entering the work force) and technological innovation, also caters to a shift in employment trends and moves us closer to a gig economy. For example, new parents now have options when it comes to returning to the workforce after the birth of a child. In a gig economy, the option to work from home is a very real possibility given the growth in digital positions such as: virtual assistants, customer service, web development, and even bookkeeping. Why pay for expensive day care when one can work from a home office?

A recent study by Gallup found that only 35 percent of all professional employees reported feeling ‘engaged’ at work. That means an alarming 65 percent of all workers are merely “going through the motions”. These employees are not invested in their job and they’re certainly not invested in the company they work for. This has huge implications, particularly for corporations who rely too much on full-time employment but are also in the process of unloading their pension programs and opting for smaller benefit packages.

I do not think the gig economy is a temporary trend and I think this presents new challenges for both workers and employers. We are at an evolutionary crossroads where the gig economy will become the norm and companies must restructure their employment framework to stay competitive and combat dissatisfaction in the workforce. Moreover, employees can no longer rely on the companies they work for to fund their retirement. Moving from ‘gig’ to ‘gig’ as my uncle the musician did, means that saving for the future is the responsibility of the individual. The rise of the gig economy tells us that workers want freedom and independence but that also comes with great responsibility. I just hope most people realize this responsibility and take action before it’s too late.

RETURN TO PAGE 1

GO TO PAGE 2

GO TO LINKS PAGE

As Donald Trump begins to fill major positions in his cabinet, we'll get a better idea of which campaign policies were rhetoric and which policies he'll be able to implement. In the meantime, we have had clients ask us whether we could use history as a guide when assessing both economic and market potential given the current power dynamic in Washington that of the Republicans controlling the Senate, House and White House. We looked at market and economic performance since 1955, as well as the drivers of market performance in those periods. Since 1955, a Republican has been in power approximately 55% of the time. Below are our findings:

From a market performance perspective, when a Democrat has presided in the oval office equity markets have performed better. On average, since 1955, a Democratic President has experienced more than double the return of a Republican President (11.5% vs. 5.5% - S&P 500 Price Return, average yearly return during their term). Under a Democrat, annual returns were driven mainly by earnings growth and less on multiple expansion. Under a Republican, the drivers of the performance were an equal mix between earnings growth and multiple expansion. Economic growth as measured by Real GDP has been stronger under a Democrat vs. Republican President (3.5% vs. 2.8% - annual average).

Historically, markets have preferred a log-jam in Washington that comes with a split Congress. Although it's a small set, as there have only been 10 instances since 1955 with a split house (Senate & House of Representatives). Those periods were in the earlier stages of both President Reagan's and Obama's tenure. In those periods, the median return for the S&P 500 was 14%. Since 1955, the Democrats have controlled Congress approximately 60% of the time while dominating Congress while dominating Congress for nearly three decades between 1955 and 1980; during this period the average return was 6.6% When the Republicans have controlled Congress, it's harder to draw a historical precedent since it occurred only four times since 1955. Those four years cam between 2003 and 2006, between President George W. Bush's third and sixth year; the S&P 500 returned an average of 13% during that period. Not everything during his tenure was peaches and cream as W endured a recession in his first two years resulting in a return of 13% and 123%.

Average Return, P/E, Earnings Growth and GDP Growth (1955 - 2015)

	Avg. Annual Price Return	Avg. Annual Change P/E	Avg. Annual Earnings Growth	Avg. Annual GDP Growth
Republicans	5.5%	4.3%	3.9%	2.8%
Democrats	11.5%	0.7%	11.6%	3.5%

Source: Manulife Investments, Bloomberg.

Could recessions help explain the material difference between median and average returns between a Republican and Democrat president. History illustrates that every Republican since Teddy Roosevelt has endured a recession in their first term; only two in five Democratic presidents experienced a recession during their terms (Carter & Obama). As a result, the frequency of recessions during a Republican presidency does help explain the difference between median and average returns and the driver of returns (mulitples) vs. Democrats (earnings).

Is this a result of inferior Republican policies? Not likely, as we believe that it is likely due to many factors including: (I) The Natural Economic Cycle (ii) The 'Lag" Effect and (iii) Right Place at the Right Time.

The Natural Economic Cycle

While policies from Washington can be impactful, we believe that the economy follows a natural cycle of expansion which peaks and is followed by a contraction. Although the length in each cycle is different, like clockwork, the economy follows this natural progression. Some factors that contribute to the length of the business cycle include interest rates, consumer confidence, path of commodity prices and investment; history has shown that the average business cycle is approximately 5 years, with more recent business cycles lasting longer. The length of the current business cycle is approximately 88 months or just over seven years, which increases the probability of a recession within the next couple of years, regardless of policy.

The 'Lag' Effect

Similar to company policies, policies implemented by governments can take years to materialize into the broader economy. It is likely that Bill Clinton in the 1990's benefitted from decreased regulation, corporate tax cuts and infrastructure that President Reagan implemented in the preceding decade. On the flip side, Presidents often inherit problems created by policy decisions of their predecessor (probably one of the causes of their successful bid in the first place). For example, President Reagan, Bush Jr. and Obama faced a recession in the years that they were inaugurated in 1981, 2001 and 2009.

The Right Place at the Right Time

And sometimes, it's better to be lucky, than to be good. Presidents have benefitted from both random positive and negative shocks that have been out of their control. In the 1990's, under President Clinton, the U.S. experienced strong growth coinciding with low inflation and unemployment. The 'new economy' saw strong productivity gains fueled by the integration of the 'internet of things' into our personal and business lives. The 1990s enjoyed the longest economic expansion in the history of the U.S., spanning nearly a decade. While President Clinton receives a lot of praise for the strength of the economy during his administration, we can all agree that he was not the reason for the proliferation of the internet within our lives.

As well, the Clinton administration benefitted tremendously from the powerful demographic trend which was the Baby Boomers, a group born during the post-World War II baby boom (between 1946 and 1964). Baby Boomers were the wealthiest and most physically fit generation up to that point. This generation reached peak levels of income and as a result, they consumed like no other generation in history. The Baby Boomer generation was entering their peak spending years in the 1990s and the U.S. economy and President Clinton benefitted as a result. On the flip side, President Nixon and Ford were the unfortunate recipients of the oil price shock that started in October 1973 and lasted until March 1974. During this period, OPEC imposed an oil embargo which resulted in oil prices rising from US$3 per barrel to approximately US$12. Needless to say, this sharp move upwards in oil over a relatively short period of time resulted in a recession in the United States.

[Back to Page 1](#)   [Continue Reading](#)   [Back to Page 2](#)

[Disclaimer](#)

There have been many comparisons of Donald Trump's policies and potential impact on economy/markets to those of President Reagan in the early 1980's. Although there are similarities, we think that there are also major differences. First, from an economic cycle perspective, President Reagan's first two years were marred by a recession and therefore his remaining six years benefitted tremendously from a rebound. Today, we haven't experienced a recession in over 7 years and although we don't think that a recession is imminent, we also don't think that President- Elect Trump's policies will restart the economic cycle. History would suggest that the likelihood of a recession is increasing by the month.

Second, from a valuation perspective, leading into President Reagan's 'boom' years, the S&P 500 was trading at nearly 14 times trailing earnings, whereas today, we are trading over 20 times. Inflation as measured by the Consumer Price Index (CPI) dropped from 11.8 % at the beginning of Reagan's term to 4.4% which acted as a tailwind for multiples, as they have historically have had an inverse correlation. At the current inflation level of 1.6% and likely inflationary impacts from tax cuts and increases in wages and government spending, inflation is unlikely to provide the same catalyst to multiples in today's environment. It may actually act as a headwind.

Finally, from a monetary policy perspective, during Reagan's presidency, the Fed Funds Rate started at 18% in 1981 and was 8.5% by the end of his term in 1988. Assuming that the Federal Reserve raises rates by 25 basis points in December (FED FUND futures estimate a 98% probability), Donald Trump will begin his presidency with a 0.50% Fed Fund's rate. Given Trump's goal of spending $1 Trillion in infrastructure and cuts corporate and personal tax, this will likely be inflationary rather than deflationary. Another difference between Trump and Reagan is that Trump is unlikely to be a benefactor of lower rates. Therefore, given the differences in the stage in the economic cycle, valuations and inflation between the two, drawing comparison may not be fair.

So, where does that lead us today? This commentary is not by any means a negative view of President Elect Trump's policies and their potential efficacy, the conclusion of this piece would have been the same regardless of the winner of the election. Economic performance is not driven by who is in power across the U.S. executive branches but a function of the economic cycle, 'lag effects' of prior administrations and downright luck or lack thereof. The drivers of the market in any year is earnings growth and valuations, and as of today based on these metrics, we believe that the market rally is a bit premature and we continue to believe that forward market returns will be positive yet, below their historical long term averages.

[Back to Page 1]

[Back to Page 2]

[Disclaimer]

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.

All non-mutual fund related business conducted by **Kleinburg Private Wealth Management** is not in the capacity of an employee or agent of Carte Wealth Management Inc. Non-mutual fund related business includes, without limitation, advising in or selling any type of insurance product, advising in or selling any type of mortgage service, estate and tax planning or tax return preparation. Accordingly, Carte Wealth Management Inc. is not liable and/or responsible for any non-mutual fund related business conducted by **Kleinburg Private Wealth Management**. Such non-mutual fund related business conducted by Kleinburg Private Wealth Management alone.

Mutual funds provided through Carte Wealth Management Inc.

RETURN TO PAGE 1