IN FOCUS

October 2018
Volume 2, Issue 2

IAIC
Independent Accountants' Investment Counsel Inc.™

The Quarterly Commentary

Approaching 117 months and counting, the current economic expansion is one of the longest recoveries on record. This is well beyond the 68-month average duration of expansions in previous economic cycles. In the US, corporate earnings continued to grow, business and consumer confidence remained high and the balance sheets of U.S. businesses and households appear to be relatively strong. While U.S.-imposed tariffs on specific products or targeted goods coming from specific countries (mainly China) have increased the costs of some materials and consumer goods, they have done little to materially slow the U.S. economy. As a result, the third quarter closed out with the Dow Jones Industrial Average ("DOW") surging 9%, up 7% year-to-date, and mitigating the 2% pullback in the first six months of the year.

While some data supports continuation of growth into 2019, there are certainly sound arguments to suggest that the U.S. economy could be nearing a contractionary period. Wages are growing as the economy nears its capacity and tariffs may start to push inflation higher. The volatility of the markets in the first half of October 2018 is an indication that investors view valuations at relative highs. There are also fears that the U.S. Federal Reserve Board ("the Fed") could move faster in its current round of interest rate tightening and risk tipping the economy into a recession.

In global markets, the impact that increasing protectionist practices will have on Asia, Europe and, in particular, emerging market economies which have been strong catalysts for global growth over the current protracted expansion cycle, remains to be seen.

> ***"Canadian investors received good news when Canada announced a new trade deal with the U.S. and Mexico in September."***

Canadian investors received good news when Canada announced a new trade deal with the U.S. and Mexico in September. The agreement, known as the United States-Mexico-Canada Agreement ("USMCA") replaces the North American Free Trade Agreement and should help ensure that Canada's economic relationship with the U.S., its most important trading partner, remains strong.

U.S. President Trump had stated that without a new deal he would consider the introduction of substantial tariffs on Canadian automobiles and auto parts. Canadian auto sector exports to the U.S. represent approximately $100 billion annually, over 30% of Canada's total exports to the U.S. and approximately 5% of Canada's gross domestic product ("GDP"). New tariffs could have resulted in the loss of thousands of highly paid jobs and likely facilitated a recession in Canada. In the end, some give-and-take resulted in Canada opening up part of its regulated dairy market to the Americans. Tariffs imposed on Canadian steel and aluminum remain in place. Still, economists are near unanimous in declaring that a new trade deal was required to deal with the evolution of the economy and that a deal of compromises was far better than coming back empty-handed.

The negotiation of the USMCA has provided additional rationale for the Bank of Canada ("BoC") to continue raising interest rates. Since mid-2017, the BoC has increased its overnight lending rate in increments of 0.25% from 0.5% to the present rate of 1.50%. Before this series of recent increases, the BoC rate has not been more than 1.00% since the financial crisis of 2008.

Mike Williams CFA, MBA

Advising Representative

Trailing economic data from 2016 and 2017 would suggest that the Canadian economy has been doing better than the U.S. economy and the rest of the G7. BoC Governor Stephen Poloz has used this economic strength as an opportunity to increase rates despite core inflation remaining at or below its

target of 2.00%. The interest rate hikes have given the Canadian dollar a boost, keeping the loonie tightly coordinated with the strong U.S. dollar. Higher interest rates may hurt our exports in the short term but provide the opportunity in the future for additional stimulus if the BoC were to see the need to cut rates again to boost the economy.

Economists have expressed concern that the BoC's reading of the economy is somewhat distorted when considering the underlying fundamentals. The Canadian economy was given a boost by running higher deficits and implementing a substantial increase in benefits to families with children. Unlike infrastructure spending, new program spending recurs annually, making it more difficult to balance future government budgets. At the same time, new taxes and policies imposed by both the federal and provincial governments are fueling inflation and adding to the cost of doing business in Canada. We have seen an outflow of private sector capital which is critical to supporting future economic growth.

News of the legal challenges and jurisdictional disputes that Kinder Morgan faced in its proposed construction of a second Trans Mountain Pipeline may serve to dampen future investment in Canada's key energy sector. Additionally, changes in the provincial governments' positions on carbon taxes and regulatory hurdles may result in a shift in the federal government's position in the run-up to the 2019 federal election. Still, the BoC needs to balance the positives with the negatives when setting monetary policy. We anticipate an additional 0.25% rate increase at the next BoC meeting, stemming from the successful negotiation of the USMCA, with additional increases in 2019 now more probable.

We have been enjoying an extended period of positive returns in equity markets, fueled over the last decade by stimulus measures and, for the last two years, a pro-business administration in the U.S. However, markets do not keep going up forever. While the U.S. economy continues to grow, there are still a number of uncertainties that we have to consider:

- International political tensions;
- The impact of protectionism on the U.S. and global economies; and
- The Fed's ability to contain growth and inflation without tipping the U.S. economy into recession.

In Canada, our energy sector faces unique challenges, but the success in securing the USMCA deal has at least eased some concerns. Still, investor confidence has been shaken by what is perceived as risk and uncertainty when deploying capital. Despite all this "noise", at IAIC we continue to maintain our disciplined, long-term approach to investing well-diversified portfolios as the best means of navigating through periods of uncertainty.

How The Markets Performed

Key Indicators		
90 Day Tbill		1.59%
CPI (Y/Y)		2.84%
$U/$C		$ 0.77
Major Market Returns	**3 Month Total Return**	**12 Month Total Return**
S&P/TSX Composite	-0.57%	5.87%
S&P/TSX Preferred Share	1.60%	5.10%
S&P 500 Composite ($U)	7.71%	17.91%
MSCI EAFE ($U)	1.42%	3.25%
IAIC Equity Sector Benchmarks		
Consumer	-0.62%	6.41%
Financial	3.79%	8.12%
Utilities	0.59%	-1.59%
Industrial	4.90%	20.77%
Resource	-8.37%	-2.35%

The U.S. market drove returns in the third quarter of 2018 and posted a gain of 7.71% in US$ (or 5.87% C$) for investors, as measured by the S&P 500 Index. Positive economic and earnings figures helped overcome trade tensions and political uncertainty around the world, leading to a return of 5.10% in US$ (or 3.30% C$) for global equities, as measured by the MSCI All Country World Index. An appreciation of the Canadian dollar dampened U.S. and international returns during the quarter. Canadian markets (as measured by the S&P/TSX Composite Index) returned -0.57% (C$), whereas International markets (as measured by the MSCI EAFE Index) finished at 1.42% US$ (or -0.31% C$). The S&P/TSX was weighed down by the resources sector, which is heavily represented in the index.

Jordan Carter, CIM

Advising Representative

The Connection Between Health And Wealth

As many of us know, financial stress can impact many areas of our lives. A study conducted by Fidelity in collaboration with Stanford University found that the worse financial shape we are in the more likely we are to have severe stress-related issues in our lives. The study found that taking on more debt caused higher stress levels, worsened sleeping patterns, weight gain, and a general decrease in physical activity which in turn can lead to greater health problems.

The Financial Planning Standards Council (FPSC) found that 42 percent of Canadians rank money as their greatest stressor and that number certainly doesn't seem to be going down. With that information, minimizing money woes should be on everyone's minds.

WHAT YOU NEED TO KNOW

When you are in significant debt or behind on your bills it can feel like a never-ending nightmare. Living your life with these stressors can have severe effects on both your physical and mental health, and therefore should be a top priority. Tackling your financial issues can sound daunting, but it is the only way to start making meaningful change. Making a plan, cutting back spending, and paying down your debt will not only put you in a better place financially, but physically as well.

Make a plan and stick to it. You might be surprised how having some control over your finances can put you at ease.

Sometimes, however, life happens. Situations present themselves that are beyond our control. Unfortunately, our finances are usually the first to take a hit when this happens. We may not be able to predict when an illness, death, job loss, or unforeseen expenses will occur, but we can start planning for when it happens. Working towards an emergency fund is a great place to start. It is generally recommended that a family have six months of salary saved up in case of an emergency. While this may not be a realistic goal for everyone, any amount is better than nothing.

Another safe guard to put in place is a good insurance plan. Critical Illness, Disability, Life, and Long-Term Care insurance are all designed to eliminate the financial stress that comes with a family health emergency. All these strategies can allow you to focus on what matters most to you, while still allowing you to remain financially stable.

THE BOTTOM LINE

There is no denying that financial stress can make a serious impact on our physical and mental wellbeing. If you are setting goals to improve your health, it might make sense to start with your finances. While we can always control what our body will do, we can gain control of our money and make the best choices possible. Don't be afraid to ask for help. The Financial Planning Standards council found that Canadians with a comprehensive financial plan in place reported greater levels of financial and emotional well-being. Meeting with a financial planner helped people overcome financial stress and regain control over their future finances.

Oliver Lee, B.Math

Vice President, IALIA

Life Insurance and Living Benefits

IALIA
Independent Accountants' Life Insurance Agency Inc.™

Keeping Our Record of Your Personal Information Up To Date

In order for our investment management team at IAIC to make appropriate investment decisions for you, we must always be up to date on your personal circumstances that are relevant to your financial situation and objectives.

For example, a material change in any of the following could impact our decision-making:

- Marital status
- Job / business
- Income / net worth
- Health
- Personal residence (especially a move to outside of Ontario)
- Investment time horizon (when do you need cash in the future)
- Appetite and capacity for investment risk
- Investment objectives

If you experience any of these types of changes in your life, please inform us directly, either by phone or electronically (see contact information below).

We are required to keep your personal information up to date. It is our practice that if we have not had a meaningful conversation with you in the past year about your personal circumstances such as those listed above, we will reach out to you directly in order to update our records and determine if any investment strategy changes are needed. We may reach out to you by phone, letter or electronically. In these times of identity theft, if you are uncertain at all about the legitimacy of our request for information, please contact us to verify that the request is indeed legitimate and originating from IAIC.

We look forward to hearing from you!

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eStatements and NEW IAIC Client Portal

We are pleased to announce the launch of an improved IAIC Client Portal for accessing your investment information with us online. You'll find the new portal is easy to use and will provide you with timely access to your portfolio information. If you already use the IAIC Client Portal, when you log in after October 28th you will automatically be directed to the new client portal. If you haven't tried our portal before but would like to sign up for the new IAIC Client Portal, please refer to the enclosed postcard for further information.

Perhaps best of all, you can now sign up for electronic delivery of your IAIC Quarterly Statements and IAIC Newsletter. The electronic statements provide the same information as your paper statements, but are delivered securely through the new IAIC Client Portal.

Here are some of the benefits of electronic statement delivery:

- Receive your statement sooner. We will send you an email to let you know when the statement is ready
- Environmentally friendly…no paper
- More secure delivery versus an envelope in your home mailbox
- Easier to organize and store versus paper statements
- Anywhere, anytime access to your statement - no concerns about Canada Post shutdowns.

If you would like to receive your IAIC Quarterly Statement and IAIC Newsletter electronically, please refer to the enclosed postcard for further information. For every household that switches to electronic statement delivery between now and March 31, 2019, we will donate $5 to "Nature Conservancy Canada" (www.natureconservancy.ca).

If you have any questions regarding the new IAIC Client Portal or electronic statement delivery, please contact your Financial Planner or IAIC.

NATURE CONSERVANCY CANADA

IAIC Independent Accountants' Investment Counsel Inc.™