

The Dream Achiever



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The beautiful game

Unlike last year where it seemed to rain every day, in Montreal the summer weather has been hot and dry. Over the past few weeks, many eyes have been on the 2018 FIFA World Cup in Russia. This event exhibits "The Beautiful Game" on its largest stage. Like many things in the world these days, the results in this year's competition have been exciting and unpredictable. Today as we stare out onto the field we are not sure if president Trump deserves a "Yellow card" for faking or if he really feels like diving into a trade war.

In the second quarter of 2018 global equity markets remained volatile but generally advanced with resilient economic and corporate earnings data butting heads with an unsettling geopolitical backdrop. Bond markets struggled despite a move toward risk aversion as the U.S. rate tightening policy continued. The Canadian TSX composite was driven by the energy sector thanks to a sharp rise in oil prices and had its strongest quarter since Q4 2013 up 6.77% (1.95% YTD), the American S&P 500 was up 3.43% (2.65% YTD \$USD), MSCI World was up 1.93% (0.76% YTD \$USD), and Barclays Global Aggregate Bond Index \$CAD was down -0.81% in the quarter (up 3.46% YTD). * The CAD\$ dropped -1.93% in the quarter versus a strong USD\$ (rate on June 30th was \$0.761 CAD/USD). The result of this move in currency is that your unhedged U.S. denominated foreign holdings would have benefitted. This general strength of the U.S. dollar versus most currencies caused emerging markets equity to fall sharply in the quarter.

The U.S. Federal Reserve again raised rates upwards another 25 basis points at its June 13th announcement to a range of 1.75% to 2% stating that the labor market has continued to strengthen and that economic activity had been rising at a solid pace. Policy makers projected two additional hikes by the end of this year, compared to one previously estimated. The Bank of Canada held the rate at their April and May meetings at 1.25% but consensus was that the July meeting would see the rate climb by 25 basis points.

Our feeling is that the worst for bonds may be behind us. Interest rates based on the bond curve has nearly doubled in the last 18 months. Furthermore, the bond market is currently pricing two additional interest rate hikes from the Federal Reserve this year. This combination of higher starting yield and the fact that future interest rate hikes are already priced in brings us confidence that bond investors are getting better value today. That said, we can't expect miracles from bonds as we are still in a low return environment but we do expect a higher return from bonds in the next 24 months than we have seen in the last 24 months.

Clearly, the potential tremors of a **global trade war** are top of mind, especially so for Canadians. As such, allow us to share our perspective on this topic:

The White House is disrupting the order of global trade. But unlike technology, this disruption will not make the economy more efficient. Globalization has undeniably increased global growth while reducing inflation. Therefore it's logical to assume that Anti-Globalization (Protectionism) will lower economic growth while increasing inflation.

Although the current economic impact of the proposed trade actions are actually quite small, the danger is that the rules may be re-written, with the world moving away from an era of liberal trade and open markets. U.S. protectionist policies will prompt retaliation from other nations and convince the world the global trading system is unraveling. Such a shift would mark the largest and most dangerous change in economic thought and order in decades.

"Success is no accident. It is hard work, perseverance, learning, studying, sacrifice and most of all, love of what you are doing or learning to do."

~ Pelé



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Wealthview e-signature

It seems that as a Canadian society we have been talking about going paperless for years, but it seems to us like there is more paper than ever for clients to print and sign. We have some good news for those looking to print less and save paper.

If you have signed up for the FundEX online client portal, "Wealthview", you now have the ability to change your address online and also virtually sign FundEX documents with only a click of a button. This will save you from having to print forms, sign them, and either scan fax, or snail mail them back to us.

Another advantage of this process is privacy. This method of sending you forms allows you to access them in a secure portal versus the unsecure methods of fax or e-mail. Let us know if you have any questions about Wealthview or need any help setting up your online access.



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Market Overview Continued

The feeling is that these trade threats from the US will continue but are more likely aimed at drawing concessions from trading partners (eg. Current NAFTA negotiations) then instigating an all-out trade war. Though the US may benefit in the short term via these tactics, we believe that the perceived instigator of trade tensions will ultimately be the biggest loser as their trading partners will diversify their export bases. Don't be surprised to see another country such as China step up to fill the void.

Should we proactively position ourselves defensively in advance of a full trade war? In our opinion, we don't think that's a good move for 2 reasons:

- (1) Geopolitics in a **Trump world is predictably unpredictable**. He could change his mind tomorrow morning with 1 tweet.
- (2) Staying globally diversified is already a good way to position yourself for a trade war and to avoid "Big Mistakes". (eg. Overweight US Dollar exposure has offset the recent correction in emerging markets)

Year to date, the markets have been rewarding a small swath of volatile growth technology names while stable and profitable business (value stocks) continue to underperform. History has taught us that we should stay diversified and rebalance profits from our short term winners into our short term losers. In reality, many investors look to do the exact opposite. So let us avoid taking a "Red Card" by keeping a level head. This is achieved by not being overly fearful or optimistic and keeping our emotions and expectations in check. Enjoy the rest of the summer and reach out to us with any of your questions or concerns.

Planning items

- **RRSP Contribution Room for 2018:** Please provide us your room for the 2018 tax year when you receive your 2017 Federal Notice of Assessment. The maximum limit for 2018 is \$26,230. You may need to adjust your automatic savings plans for the coming year accordingly.
- **Registered Education Savings plan (RESP) contributions:** Quebec beneficiaries get the added 10% QESI grant from the provincial government increasing the overall grant to 30%! 2018 room now available.
- **Tax Free Savings Account (TFSA):** A new \$5500 of room available since January 1, 2018. Total room since 2009 is \$57,500.
- **Conversion to RRIF account:** Those of you who turn 71 years of age in 2018 (born in 1947) will need to convert their RRSPs into RRIF accounts before the end of the year. We will be in contact to assist you on how to get that done if you haven't done so already.
- **Your Annual Review:** It is important to inform us of any changes taking place in to see the effects on your plan.
- **\$2K pension deduction:** Those who turn age 65 in 2018 or older and not already receiving recognized pension income.

The Construction Planning Corner – Renovations at 589 Marshall



After several decades of enjoying our "1970's time capsule" style bathroom next to Dave's office (see picture to left) the time has come to "catch and release" the salmon colored toilet and bathtub and welcome in a new look and feel.

Along with the updated bathroom, there is currently work being done to change the office lighting, flooring, windows, and basement staircase with the goal of creating a safer, more comfortable, and functional environment for the office.

For those of you who will be visiting or calling the office in the coming weeks, we would like to apologize in advance for any construction clutter, noise, dust, or driveway traffic that you may experience due to the work being done. This project was long overdue, so we will endure some short term pain for long term gain. Feel free to drop by this fall for a cup of coffee and a tour!



Disclaimer:

The foregoing is for general information purposes only and is the opinion of the writer. This information is not intended to provide specific personalized advice including, without limitation, investment, financial, legal, accounting or tax advice. However, please call **David Humes, Matthew Humes, Chantal Massicotte, or Danielle Mills** to discuss your particular circumstances.

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*Source: Morningstar Canada