IN FOCUS

January 2019

Independent Accountants' Investment Counsel Inc.™

CELEBRATING 20 YEARS

The Quarterly Commentary

Falling markets in the fourth quarter of 2018 challenged investors as major stock indices fell from positive territory for the year at September 30 to losses by year's end. Even taking dividends into account, stocks lost ground despite the U.S. economy remaining relatively strong.

Investors were clearly concerned by a number of issues, including the duration of the current cycle of economic growth, the impact that the U.S. Federal Reserve Board's ("Fed's") actions may have on the U.S. and global economies, and the ongoing trade tensions between the U.S. and China and possible spillover effects of protectionism on other major economies.

The Fed and the U.S. economy

The duration of the current economic expansion is one of the longest on record, lasting nearly twice the 68-month average of previous economic recovery cycles. Following a strong first half to 2018, key economic indicators suggested some softening. U.S. auto sales and housing starts slipped during the second half of the year. The Purchasing Managers' Index ("PMI"), which indicates the strength of orders among manufacturing and service sectors, began to weaken in the U.S. and most major economies. In fact, the December global PMI fell for the eighth month in a row. While PMI numbers from China are somewhat less reliable, they too indicated a slowdown in one of the world's largest economies, which is key to fuelling global growth. Global growth began to subside and is expected to signal a slowdown in economic expansion that will moderate to 3.0% annually, somewhat less than projections of 3.5% to 4.0% from the first half of the year.

Yet the Fed, supported by the fact that the sub-4.0% U.S. unemployment rate (a 40-year low) points to an economy near full capacity and ripe for wage inflation, remained unwavering in its determination to tackle the modest inflation that was beginning to show in the data. The Fed is no doubt also wary of the impact that additional tariffs would have on core inflation, despite this being outside of the influence of monetary policy.

Consumer confidence in the U.S. began to decline from the highs reached in the third quarter. And despite the market's clear signals of fear that further tightening of economic policy could be a catalyst for a major slowdown or even a recession, the Fed elected to move ahead in December with a 0.25% increase in its benchmark lending rate. Even the U.S. president weighed in with an unprecedented criticism of the Fed's actions and the impact it was having on stock markets. However, news in January that U.S. job gains in December were better than anticipated gave credence to the Fed's concerns.

The Bank of Canada and the Canadian economy

Turning to the Canadian economy, investors were provided with some relief in the third quarter when Canada and the U.S. announced finalization of a revised trade agreement, known as the U.S.-Mexico-Canada Agreement ("USMCA"). Given that approximately $600 billion of goods and services flow across the U.S.-Canada border annually – with U.S. exports accounting for approximately 20% of Canadian gross domestic product – the relatively minor compromises made by Canada in the new deal were a far better outcome than having the previous trade agreement scrapped with little framework in its place. That outcome would have forced Canada to negotiate brand new bilateral trade agreements with the U.S. and Mexico.

The Bank of Canada ("BoC") no doubt took into account the finalization of the USMCA when it raised its benchmark rate from 1.5% to 1.75% on October 24th. On December 5th, the BoC held its rate steady, citing a number of concerns, including slowing global growth caused by new trade tariffs, the impact of rising interest rates on consumption and housing and the persistence of downward pricing pressures on the Canadian energy sector, compounded by constraints in transporting Canadian crude oil into the market.

Mike Williams
CFA, MBA

Advising Representative

Political leadership at the federal level has been caught between addressing climate change concerns, balancing the rights of indigenous groups, investors and workers in the energy sector, and responding to the sometimes competing interests of provincial governments. Capital deployment in Canada is an emerging issue as investors lose confidence with the approval process of projects and pipelines in the energy sector. There has also been a settling of the Canadian housing market following the introduction of new qualification requirements and five interest rate hikes since mid-2017. While inflation, according to the Consumer Price Index, was running at 2.4% in October, slightly above the BoC's target of 2.0%, some inflationary pressures have arisen as a result of government policies and taxation. The BoC expects inflation to ease somewhat, due to lower gas prices and moderating economic growth. The BoC is challenged with monitoring a diverse economy with many moving parts, including a correlation to external factors beyond the influence of monetary policy.

The year ahead

Looking ahead, economists are expecting growth to slow in the U.S. to below 2.0% and global growth to slow to under 3.0%. The Fed has indicated that it is carefully watching a number of key indicators that may compel it to slow the rate of interest rate increases in 2019, in spite of its stated intention to bring the rate more in line with what policymakers see as a neutral lending rate (i.e. neither stimulating excessive borrowing nor negatively impacting capital deployment and consumer spending) in the range of 2.5% to 3.5%. Some economists have revised their forecasts to one rate increase of 0.25% in 2019, down from three just months ago. Some are even suggesting the Fed may stand pat with increases throughout 2019.

Investors have enjoyed relatively strong equity markets and low interest rates for nearly a decade. The volatility that characterized the markets in 2018 has been unsettling, particularly with the steep decline in the fourth quarter. But it is noteworthy that, over the long term, pullbacks from market highs are the norm and can be healthy when stocks are bid up in excess of fundamental value. The volatility of the fourth quarter was also exaggerated by programmed trading, with equity indexes often falling and then rebounding by 3.0% or more within a day, which even impacted fixed income securities such as Canadian preferred shares. While we anticipate further volatility in 2019 with slowing growth in both developed and emerging economies, we also see buying opportunities, since many good stocks offer relatively better value today than a year ago.

How The Markets Performed

Stock prices saw steep declines across all markets in the fourth quarter. Equities in each geographic region fell by double digits, bringing annual returns well into negative territory. After a roller coaster ride in the first half of the year, the S&P 500 Index rose 7.7% in the third quarter and posted a year-to-date gain of approximately 10.5%. The fall during the final three months of 13.5% resulted in a calendar year total return of -4.4% for the S&P 500. The fourth quarter ride was more intense than the two endpoints indicate, as the decline from the peak on October 3rd to the low on December 24th was in excess of 19.0%. A rally in the days following Christmas mitigated some of the losses.

The S&P/TSX Composite Index fared slightly better in the quarter than its U.S counterpart and posted a 10.11% decline. Losses were broad based. Only the more defensive utilities sector posted a small positive return. Canadian investors' losses in Canadian dollars on U.S. securities were somewhat mitigated as the U.S. dollar strengthened through 2018. The last three months of the year also saw downward pressure on fixed income yields in Canada (for example, the Canadian S&P/TSX Preferred Share Index return of -10.0% for the quarter), leaving investors with few asset classes unaffected by the downturn in the fourth quarter.

Key Indicators		Dec-18
90 Day Tbill		1.64%
CPI (Y/Y) (Nov)		1.68%
$U/$C		$ 0.73
Major Market Returns	**3 Month Total Return**	**12 Month Total Return**
S&P/TSX Composite	-10.11%	-8.89%
S&P/TSX Preferred Share	-10.01%	-7.93%
S&P 500 Composite ($U)	-13.52%	-4.38%
MSCI EAFE ($U)	-12.50%	-13.36%
IAIC Equity Sector Benchmarks		
Consumer	-10.47%	-9.45%
Financial	-11.31%	-9.32%
Utilities	0.61%	-4.43%
Industrial	-12.52%	1.46%
Resource	-11.00%	-14.96%

Being a business owner in Canada can be stressful – but it doesn't have to be!

Bringing your work and life into balance can be EASY. As a business owner, chances are that you find yourself struggling to balance the demands of your business with your personal and family life. And yes, this can be stressful BUT it doesn't have to be.

The following tips will help you keep your life and work in balance – and will REDUCE your stress.

1. Take some "Me Time" - 10 minute breaks – quick & easy

Inject some "life" into your "work." Take a 10 minute "me time" every couple of hours. Get up and move, go for a walk, call a friend, laugh at an online video. There is business value in "Me Time". In fact, taking short breaks throughout your day can improve your mood and make you more productive when you're working.

2. Create breathing room – separate work & life

Give yourself breathing room between work and home. If you don't have a commute, clear your head by doing some gentle stretches, listening to music or reading a few pages of a book. Taking time to transition can be a big stress reliever.

3. Delegate - delegate - delegate

It's OK, you really don't have to do everything yourself. Take some time and identify tasks at work and at home that you can delegate to others. And you know, you might even discover that you can eliminate unnecessary steps and tasks so no one has to waste time on them.

4. Know yourself – be smart

Money is the number one cause of stress, globally, and a challenge for 37% of Canadians. As a business owner you have two sets of finances to worry about - business and home.

To reduce financial worries at work and home:

- Understand your spending patterns and stop money drains by creating a budget
- Manage health costs with health and dental insurance
- Ease concerns about the future by considering how to save for retirement or other big expenses through a workplace retirement savings plan

5. Plan for the unknown

What will happen if you can't go to work - whether you have the flu or something more serious? It can be scary to think about, but having back-up plans will allow you to relax and stress less.

Consider:

- Setting up an emergency fund or line of credit to bridge cash flow gaps
- Purchasing insurance that will help replace your income if you become disabled or if you're diagnosed with a critical illness
- Protecting your business and your partners with buy-sell life insurance and buy-sell disability insurance

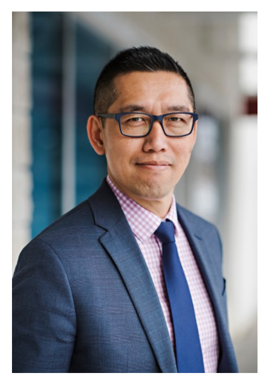
Prepare for the year ahead

With the arrival of the New Year, it is a good time to review your current financial situation and start preparing for the year ahead.

Here are some suggested actions for your consideration:

- Have a financial plan created through a qualified financial planner
- Create a household budget
- Contribute to a Tax Free Savings Account (TFSA). The maximum contribution for 2019 is $6,000
- Maximize your contributions to a Registered Retirement Savings Plan (RRSP). The deadline for the 2018 tax year is March 1, 2019
- Maximize your Registered Education Savings Plan (RESP) contribution
- Prepare for filing your 2018 taxes
- Review your current insurance coverage
- Consider updating passwords and security questions for any online accounts
- Obtain a personal credit report to check for signs of identity theft
- Set aside savings in an emergency fund
- Access resources available to you to help you succeed in business and keep your life in balance - talk to a financial advisor

IALIA
Independent Accountants' Life Insurance Agency Inc.™



Oliver Lee, B.Math

Vice President, IALIA

Life Insurance and Living Benefits

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 are more secure, available anytime/anywhere and reduce our environmental impact.

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)

REGISTER NOW

To date IAIC has already donated $1,080 to Nature Conservancy of Canada. Thanks for the support!

NATURE CONSERVANCY CANADA

SIGN UP

IT'S OUR 20TH ANNIVERSARY AND WE'D LIKE TO THANK YOU FOR YOUR SUPPORT. WE COULDN'T HAVE DONE IT WITHOUT YOU!

For over 20 years IAIC has provided "in house" discretionary money management to our clients. We are committed to providing our clients with an investment portfolio tailored to each client's unique financial situation, utilizing a value based approach to investing combined with rigorous diversification and discipline strategies. We want to take this opportunity to thank you - OUR CLIENTS - for your continued support. We couldn't have done it without you!

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