IN FOCUS

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Independent Accountants' Investment Counsel Inc.™

The Quarterly Commentary

After a major pullback in the fourth quarter of 2018, stock markets rebounded over the first half of 2019, although not without some bumps along the way. While the markets responded positively in the first quarter of 2019 to the Fed backing down from monetary tightening, second quarter performance was relatively muted and more volatile.

Building on the first quarter growth, the Dow Jones Industrial Average moved ahead another 2.6% in April, only to fall by 6.7% in May as trade tensions increased and economic data continued to show that confidence in the economy was weakening. May's decline was offset by a corresponding gain in June, resulting in a 14% gain for the first half of the year. Canadian investors, however, saw some of these gains offset by a strengthening Canadian dollar. The S&P/TSX Composite Index followed a similar path, rising 14.4% year to date, with some minor deviation due to its heavier weighting in resources and energy.

The first quarter rally, which extended into April, was partly driven by a change in the tone from the U.S. Federal Reserve Board ("Fed"). Until January, the Fed seemed unwavering in its quest to tighten monetary policy. With the U.S. economy continuing to expand and unemployment below 4%, the Fed had been concerned that the economy was nearing conditions that lead to wage inflation and rapid economic expansion and decline, compounding uncertainty for consumers and businesses. Accordingly, throughout 2018, the Fed had adopted a strategy of increasing the federal funds rate, making borrowing costs more expensive, reducing spending and tempering inflationary pressures.

In the final quarter of 2018 the market was clearly providing signals that the Fed's tactics might be overwrought. Stock markets tumbled by over 20% in the fourth quarter on fears that economic growth was slowing, short-term interest rates were rising, increasing costs to both businesses and consumers, while long-term interest rates had fallen, indicating growing risk to sustained economic growth. Boosting short-term interest rates too quickly in this environment could actually trigger or compound the negative effects of a recession. By January 2019, the Fed changed course, holding rates steady and indicating that the trend of rate increases throughout 2018 would be put on hold.

A June 2019 meeting of the Federal Reserve Open Market Committee concluded with Fed Chairman Jerome Powell setting the stage for a rate cut in the coming months. The Fed had consistently moved in this direction since its meeting in January. Forecasting moderate growth for the remainder of the year and into 2020, the Fed softened its tone from previous statements, stating it would "act as appropriate to sustain expansion." It also cited that weaker global growth and trade uncertainty was increasing the outlook for downside risks.

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Meanwhile, trade tensions between the U.S. and China have escalated again, with little indication of a resolution on the horizon. However, when the U.S. took aim at Mexico a resolution was found, demonstrating that the U.S. is in fact willing to negotiate with its trading partners. Mexico had a relatively larger incentive to find a solution given that 25% of its gross domestic product ("GDP") crosses the U.S.-Mexican border. The U.S. administration was also pressured by U.S. manufacturers, particularly the auto industry, to back

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down from the proposed tariffs since they would have significantly impacted supply chains. The issues with China, however, are different. U.S. firms' supply chain links with China are on a smaller scale than with Mexico. The focus with China has broadened into the protection of intellectual property and abuse of technology.

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The recent G20 summit brought the U.S. and China back to the table and both countries agreed to resume talks. Economists are suggesting that President Trump's proposed 25% tariff on the remaining $300 billion of Chinese imports exempt so far will probably be scaled back to 10%, then increasing next year in the absence of a deal. The coming 2020 election year could further reduce the chances of a trade agreement with China, as the President will want to be seen as a defender of U.S. interests, contrasting the weaknesses of his opponents.

The recent rebound in the stock markets may be providing investors with a false sense of security. Of particular concern is the yield curve, which shows the effective interest rate on government bills and bonds of various durations. First, the curve continues to fall, which indicates that the economy is not likely to expand at a rate any higher than 1–2% over the long term. The headwinds that are currently slowing economic growth are expected to persist into 2020. The second issue is that long-term interest rates are lower than short -term rates and this "inversion" has proven to be a leading indicator of previous recessions. Regardless, the inversion is a clear signal that risks to the economy are rising.

In conclusion, we are advocating caution against a backdrop of slowing growth and ongoing trade issues. We also think that anticipated changes in monetary policy are already priced into the markets and stock prices are unlikely to increase at the rate they have in the first half of 2019.

How The Markets Performed

Global equity markets continued their positive performance in the second quarter of 2019. Each of the three main geographic regions saw an increase of between 2.5% and 4.3% on a total return basis. While returns were more modest than the opening three months of 2019, markets did experience substantial volatility since the end March. The S&P500 began the quarter up 3.9% during the month of April before falling 6.6% in May. The losses were reversed in June with the index up 6.9%. Both the Canadian and International benchmarks followed a similar path albeit at different levels.

Jordan Carter, CIM

Advising Representative

Key Indicators	March 2019	
90 Day Tbill	1.66%	
CPI (Y/Y) (Nov)	2.4%	
$U/$C	$ 0.76	
Major Market Returns	**3 Month Total Return**	**12 Month Total Return**
S&P/TSX Composite	2.58%	3.88%
S&P/TSX Preferred Share	-2.06%	-9.42%
S&P 500 Composite ($U)	4.30%	10.42%
MSCI EAFE ($U)	3.68%	1.08%
IAIC Equity Sector Benchmarks		
Consumer	0.37%	5.56%
Financial	2.36%	1.20%
Utilities	1.11%	11.14%
Industrial	7.58%	16.13%
Resource	-0.44%	-10.19%

Strategies for Passing Down the Family Cottage

A cottage often holds a lot of sentimental value to families and is the home of wonderful memories. Many cottage owners would like to see their children and grandchildren get the same joy from the property that they did, even after they are gone. This seems like a nice sentiment but leaving it to your family is no walk in the park. Assuming you own a separate home as your principal residence, there are tax implications that come with leaving a cottage to your children. If they aren't dealt with properly it can be a serious financial burden to both you and the kids.

What You Need To Know

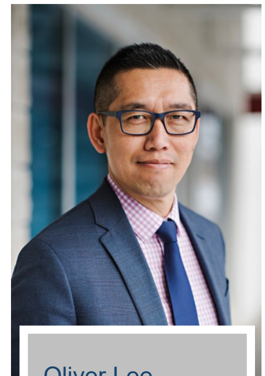
There are a variety of ways to leave a family cottage to the next generation, but the following are three straightforward and cost-effective ways to do so:

Gift It While You Are Still Alive

This strategy may work well for you if you no longer want to use or have control over the cottage. By gifting the cottage while you are alive, you can personally deal with any capital gains associated with the sale. The tax burden would fall to you instead of your kids and they will not have to worry about a tax bill when you die. It may be prudent to consider gifting the cottage over a number of years, therefore spreading out the tax burden. It is important to remember that with this strategy, you give up control of the property. That means it could be sold by your child or become an exposed asset in the event of marriage breakdown.

Life Insurance

Perhaps one of the easiest ways to tackle the taxes on your cottage is to purchase a life insurance policy. The proceeds of the insurance can be allocated to deal with any taxes or expenses that arise from your death. After the life insurance deals with the tax burden, the cottage can be passed to your heirs without any great expense to them. This strategy allows you to have control of your property until you die and allows it to pass easily to your children.



Oliver Lee,
B.Math

Vice President
IALIA

Life & Living
Benefits

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Independent Accountants'
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Just Sell It

Selling the cottage isn't even an option in many people's eyes, but sometimes it may be the best choice. People often assume their child will want the cottage when they die or if they have multiple children that they will be able to peacefully share it amongst themselves. Unfortunately, that is not always the case. Your children simply may not be interested in taking on the financial burden of running a second property and having your children share the property may be a disaster waiting to happen. It could be in the family's best interest to have the cottage sold when you die. Once the taxes and transaction expenses have been paid out of the proceeds, the remainder of the cash can be given to the children to do with what they wish.

The Bottom Line

Passing down a cottage is not always a smooth process. It is important to discuss with your children if they desire to own the cottage in the first place. If they do, it is essential that you work with a tax professional to ensure that your property gets handed down in the most tax effective way possible.

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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Know Any Millennials?

Millennials are now the largest generation of people in Canada. They're the most educated and diverse generation, but they face unique challenges. According to Statistics Canada, Millennials had higher assets and net worth than young Gen-Xers, but they also carried more debt. Millennials who entered the housing market took on larger mortgages relative to their incomes than before.

When purchasing a home, it's important to consider protecting your mortgage and your family's finances by using life insurance. To protect the mortgage, homeowners have a couple of options. You can buy mortgage insurance from a financial institution or you can get mortgage protection from an insurance company. There are key differences between these two options including who receives the insurance benefit and if your life insurance moves with you if you change lenders.

Please contact Oliver Lee - Oliverl@ialia.ca - (519) 444-8170, or your Financial Planner to discuss the differences and determine which type of mortgage insurance is right for you.

IAIC Disclosures

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