Portfolio Management Commentary

Quarter Ending September 30, 2019

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Inside This Issue

Clearly, the quarter's news headlines and market action were dominated by the US-China trade dispute. Further escalation by both parties caught the attention of investors, economists, and professional market participants as volatility readings resembled an ECG. That's right, all over the place! The US Fed also entered the picture with two rate reductions of 25 bps a piece, once in July, and then again in September. The nagging question is how effective will future rate adjustments be given increasing political pressure and policy divisions in the Fed? This is an important issue to monitor. A policy error can be very costly for borrowers and investors alike.

Another topic for review is the slowing of global economic growth. Global PMIs (Purchasing Managers Indexes) have been falling for most of 2019 and this trend accelerated in the third quarter. While this is most useful when describing the economic activity in manufacturing nations, it can also spill over into service-related economies like the US. For the record, current non-manufacturing PMIs are still in expansion for the US. This is a good thing for an economy which is largely consumer based. Keep in mind that "slowing" does not necessarily mean that a recession is imminent as these readings can be quite erratic over time. Once again, we need to be mindful of the rate-of-change and the balance of evidence before we jump to inaccurate conclusions.

As for our thoughts on the final quarter of 2019, we believe, that barring some fresh crisis, the seasonal fall period should set up equities for further gains. According to our friends at Equity Clock, the S&P 500 has a 70% chance of a positive return with an average return of 3.30% for the past 20 years in the fourth quarter[1]. The TSX also has a 70% positive return with an average around the 2% mark[2]. Another interesting factoid to help support this idea is that we are in the most favourable period of the four-year US presidential cycle. This occurs from October 1st of the second year to the end of the fourth[3]. While the points above are nothing more than seasonal tendencies, and should not be acted upon alone, they do help tilt the statistics in a positive direction for equity investors.

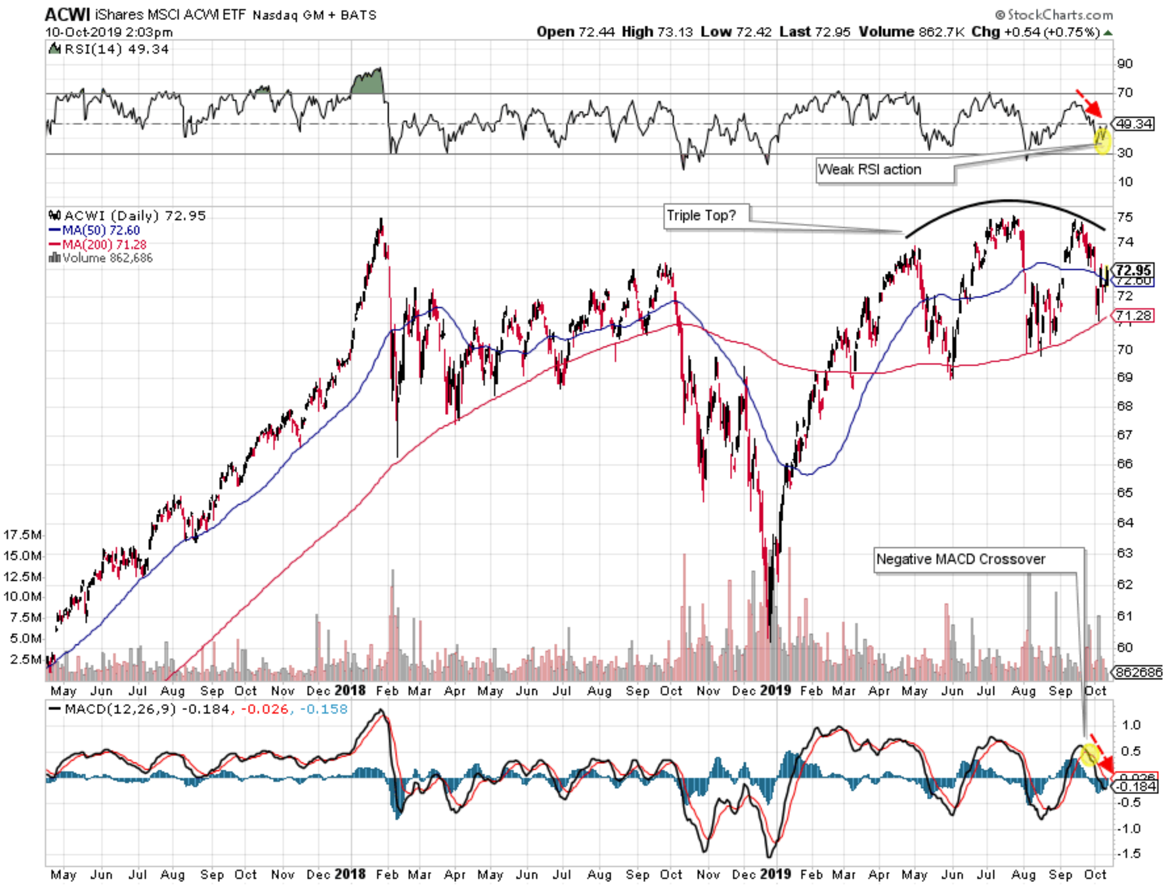
From a macroeconomic perspective, robust consumer spending, cyclically low unemployment, and strong housing numbers in the US are positive data points to counterbalance the negative ones mentioned earlier. We need to remind ourselves that something as complex as an economy has a number of components which can be at odds with each other from time-to-time.

Finally, the long-term price trend of the ACWI (iShares MSCI All Country World Index) is sloping upward and is above its 200-day moving average for the time being. This is important because this investment tracks the aggregate performance of the world's major stock markets. When it trends up, it means, on balance, that global equity returns are positive. There are technical warnings, however, such as RSI weakness and a MACD crossover, that

1. https://charts.equityclock.com/sp-500-index-seasonal-chart
2. https://charts.equityclock.com/sptsx-composite-index-seasonal-chart
3. https://gbr.pepperdine.edu/2012/10/presidential-cycle-and-stock-market/

positive price momentum may be slowing. This could portend a consolidation period of sideways price action or indicate a reversal in price trend. Still too early to tell. We have provided the following chart of the ACWI for your examination. For emphasis, the red line is the 200-day moving average of price. Notice how it slopes up and to the left.

Global Stock Markets:



Your Portfolio

There were a few trades that occurred in the 3rd quarter for the portfolios. Please see the table below and the applicable commentary for the specifics related to your model.

Portfolio	Sells	Buys
Balanced Income and Growth	• Sold Dream Global REIT (DRG.UN-T)	• Increased weighting in Facebook (FB-US) to 2%
Balanced Income and Growth and ETF version		• Sunlife MFS International Value (SUN404)
Disciplined Growth	• Sold Dream Global REIT (DRG.UN-T)	• Increased weighting in Facebook (FB-US) to 3%
Enhanced Income	• Sold Dream Global REIT (DRG.UN-T)	

Sells

- As mentioned on our September 16th, 2019 Trading Alert, we sold out of our Dream Global REIT (DRG.UN) position in all models, following a buy-out offer for the shares. We are working on a suitable replacement that ticks all of the boxes that DRG.UN did, but its quality is hard to come by. Stay tuned.

Buys

- For those of you who are in the Income and Growth models, we added an International holding through the purchase of Sunlife MFS International Value. We are underweight International exposure, and continue to be at this time, but we believed that a partial position was warranted given its best-in-class attributes, lower risk profile, and long-term consistency. We look to build on this position over time as investors switch their preference for value over growth.

- We increased our position in Facebook (FB) from underweight to model weight as strength returned to the stock through higher earnings and revenue growth. Love them or hate them, Facebook is the current giant of social media and the parent company of WhatsApp.

Portfolio Rebalancing:

- In addition to the above trades, some securities within the models were rebalanced with minor buy and sell transactions depending on position size, model and portfolio drift.

Market Movers

Leaders	Laggards
Dream Global REIT (DRG.UN) +22.90%	UnitedHealth Group Inc (UNH) -10.52%
Alphabet Inc. (GOOGL) +12.78%	Superior Plus Corp (SPB-T) -8.69%
Home Depot (HD) +12.25%	Facebook (FB) -7.73%

Source: YCharts (June 28th, 2019 – September 30th, 2019 total return)

Final Thoughts

As we enter the final quarter of 2019, we are cautiously optimistic for continued upside in equity markets for reasons explained above. For those of you who hold a higher allocation to fixed income, our suggestion is to be patient and wait until yields improve. We see no real catalysts for further rate increases anywhere in the developed world as economic activity has declined, inflation is tame, and corporate profits are mediocre. We could potentially see further rate decreases as central bankers try to jumpstart corporate growth. All-in-all, we believe it's prudent to collect our dividends and coupons and upgrade to higher quality when the opportunities arise.

Many Happy Returns,

Patrick