The Dream Achiever

DD HUMES

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INSIDE THIS ISSUE

"Disneyland is not just another amusement park. It's unique, and I want to keep it that way. Besides, you don't work for a dollar – you work to create and have fun.

~ Walt Disney

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FundEX INVESTMENTS INC.

Summer days at the amusement park

The spring in Montreal was a cool and wet one. Many were wrapped up in the Raptors NBA championship run so they were oblivious to the subpar weather. Over the last few weeks the summer weather seems to have again found its groove and the heat is back. During the summer months many people flock to amusement parks such as La Ronde to spend their money seeking out family memories and thrill rides. The end of 2018 seemed like the quick descent of a roller coaster while investors got a corresponding quick upswing in the first 3 months of 2019. The climb continued more slowly in the second quarter albeit in a more choppy fashion due to the mid quarter escalation of the US-Chine trade tensions. In June both stocks and bonds ended the quarter strong as market optimism returned due to the probability that the Federal Reserve would again begin to cut interest rates. Even with this news many are still wondering if we are at the crest of another late cycle thrill ride.

In Canada, the S&P/TSX Composite Index benefited from strength in the materials and information technology sectors to generate a return of 2.58% for the quarter (16.2% YTD), the American S&P 500 set at a new record high up 2% (13.4% YTD) in Canadian Dollar terms, MSCI World was up 1.9% (12.3% YTD $CAD), and Barclays Global Aggregate Bond Index $CAD was up 1% in the quarter (up 1% YTD).*

The CAD$ gained 1.92% in the quarter versus the USD$ (rate on June 30th was $0.76 CAD/USD). The result of this movement in the currency is that your U.S. denominated foreign holding returns would have been reduced in $CAD terms. In the short term we feel that if the Federal Reserve cuts rates and Canada does not follow suit we could see another jump in the value of the CAD$. That being said, our longer term view on the CAD$ hasn't changed and we feel that there is a risk of a significant drop in value at the next recession.

The equity market rally was supported, in part, by continued low interest rates in North America and abroad. The U.S. Federal Reserve kept its target interest rate unchanged but indicated the possibility of a rate cut in the second half of 2019, prompting the U.S. 10-year government bond yield to decline through the period. As expected, the Bank of Canada also maintained its overnight lending rate of 1.75%, noting that economic growth had been slower than initially anticipated at the beginning of the year. This was positive for bond prices, particularly long term government bonds.

Economic data was mixed in the quarter. The US GDP grew 3.1% in Q1 and the employment data remained encouraging despite slowing in June. Unemployment remained stable at a 3.6%. However consumer and business confidence indices weakened. We find it odd that the US would have the lowest unemployment rate in 50 years and yet the Fed is softly communicating its intentions to cut interest rates. This would not happen in a normal political environment. Trump is effectively influencing the Fed to cut rates when the US economy doesn't need it.

In light of this important change in monetary policy direction, it is likely that the economic and market cycle are extended. Even though we are in the late cycle we don't feel that there is a high probability of a near term recession. We feel that the media and markets are overestimating the recession risk. Most of our tactical managed portfolios and private pools are actually slightly overweight stocks versus bonds at the present time.

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Market Overview Continued

We expect interest rates to remain low for the foreseeable future but there is a long term risk of an inflation surprise from overly accommodative and politicized central banks. We believe that there will be some volatility in the markets in the second half of the year, but for long term investors, **VOLATILITY EQUALS OPPORTUNITY**. There is currently a price that investors must accept for stability and security which is a low return on their investment.

For those who are in retirement income accounts, we would highly encourage you to **top up your CASH Wedge** at this time to make sure that you have the ability to weather any storm that the markets may deliver us.

Many of the conditions that have supported market growth in recent years such as low interest rates, measured economic growth, and expanding corporate earnings are expected to continue in the near term. Nevertheless, the current recovery has not been without temporary corrections or bouts of volatility. We continue to believe that a professionally managed, diversified portfolio that is suited to your time horizon and tolerance for risk remains the best strategy for managing risk and helping you achieve your financial goals. With your investment plans in place you ensure to keep the big thrills at the amusement park.

If you have any questions about your portfolio results or your overall financial plan, please do not hesitate to contact us at the office. In the meantime, we hope you and your family have a safe and happy summer.

Planning items

- **RRSP Contribution Room for 2019:** Please provide us your room for the 2019 tax year off of your 2018 Federal Notice of Assessment. The maximum limit for 2019 is $26,500. 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%! 2019 room now available.
- **Tax Free Savings Account (TFSA):** A new $6000 of room available since January 1, 2019. Total room since 2009 is $63,500.
- **Conversion to RRIF account:** Those of you who turn 71 years of age in 2019 (born in 1948) 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 2019 or older and not already receiving recognized pension income.

The Planning Corner – What is sustainable investing?

Sustainable investing, also known as responsible or ESG investing, is an approach to investing that incorporates environmental, social, and governance (ESG) factors in the investment process.
Environmental factors consider how a company performs as a steward of the natural environment.
Social factors consider how a company manages relationships with its employees, suppliers, customers, and the communities in which it operates.
Governance factors consider the quality and reasonableness of a company's leadership, executive pay, audits and internal controls, and shareholder rights.

There are several benefits to sustainable investing. The strategies allow for investors to **align their investment objectives with their values** and beliefs of contributing to positive social and environmental outcomes. ESG can also help **reduce exposure to risks** that companies face which may not be visible on their financial statements. Integrating ESG issues can also help uncover opportunities that would be difficult to identify through traditional financial analysis alone and thus **has the potential to enhance long-term returns**.

This category of investment encompasses several types of investing methods including positive and negative screening. Positive screening is when you invest in companies with high ESG scores while negative screening keeps certain companies or industries out of the portfolio altogether. If you wish to learn more about these types of investments make sure to let us know.

*Source: Morningstar Canada