TD Wealth

Capital Markets Overview

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Compliments of:

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This is an 'important' Capital Markets Overview

In this Capital Markets Overview (CMO), we wish to discuss 2 important subjects: (1) Current and ***future*** 'Returns', and (2) management fees. I suspect both subjects are near and dear to everyone's heart. We have more to say on other subjects too but we wish to cover these subjects in some depth.

A look at Current Returns

Let's look at current returns. I am writing this part of the CMO on Sept 21 but the TSX S&P has been on fire in the past 6 or 7 days and has moved up from 14,985 on Sept 8th to today's level of 15,485 – a nice 500 point move or 3.35%. Since the beginning of the year it is up only 2% plus dividends of about a further 1% for a total gain of about 3%+. Our future target for the TSX is 16,000 and while we hope this will occur in 2017, it may not do so until early 2018. But this would be a further 515 points or 3.3% from today's level. All this said, the TSX has been one of the world's worst stock exchanges from a return perspective but because of the rise in the Cdn dollar it has also hurt Cdn returns in foreign markets as well. The Bank of Canada (BoC) surprised markets with a rate hike and this caused a jump in the Cdn currency. Read Dave's Fixed Income comments on page 7.

Rising interest rates will hurt Fixed Income returns but David's expertise and our overweight in 'preferred shares' has helped considerably, allowing us to keep bond terms-to-maturity short and accumulate some nice gains in preferred shares. But that said, interest rates are very low and will not help much in the return derby. I suspect that many Fixed Income portfolio managers will be facing negative returns in 2017 – especially if rates rise.

Not to panic, because our position in Air Canada is up over 90% so far this year while Chorus Aviation, Parklawn, Maple Leaf Foods, and Medreleaf (a marijuana producer) are all over 20% so far in 2017. So most clients are in good shape but returns will *not* be high this year. Why? Because most clients remember 2008 as if it were yesterday, have kept their exposure to equities on the lower side, and interest rates are at or bouncing up from their lowest levels 'in history'. With interest rates rising – returns in the Fixed Income asset class will likely be low to negative. When you couple these conditions with our (Arnaud Wealth Management Group) very conservative investment profile matrix (see later in this CMO) to begin with – it will keep returns on the lower side. We have informed our clients in previous CMOs that returns will be low in 2017.

Now we look at future returns. We believe they will be low for an extended period for 2 reasons: (1) interest rates are low and likely to rise; and (2) equities will probably be more volatile in the next 2 or 3 years. We intend – with our advice - to keep lower exposure to equities by encouraging clients to move their Investment Profiles to a more conservative position depending on their objectives and risk tolerance; more on this later.

Let's look at the 3 major Asset Classes and have a realistic outlook for each

Traditional portfolio management dictates that every client have weightings in 3 asset classes: (1) Cash

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Reserves; (2) Fixed Income; and (3) Equities. We produce, every year, the returns generated in these 3 asset classes and I enclose it on the next page for you to review. It is updated for 2017 with approximate returns to the end of September (a positive 1% average return). Let's quickly review each asset class.

If you review the Cash Short Term column you will note it has NEVER had a negative year but rarely will it give you a solid return. Looking forward, with short term rates around 1%, that's AWMG's forecast until central bankers increase interest rates. This is likely to take more time; perhaps as long as 2 or more years.

If you look at the Bonds Long Term column, it will generate a negative return if interest rates (or yields as they are called in bondland) rise materially from one period to the next. I have used a 0% return for 2017 but it could easily be negative by the end of this month/year. The yield on a 10 year bond is 2.11% (it was not that long ago that they were 1.5%) and it will generate a negative return if the yield continues to rise. For example if, in the next year, the yield moves up to 3.11%, the 10 year bond will decline in market price by about 9% so that your net return for the 10 year bond over this 1 year period is a negative 7% (the negative 9% less the interest coupon of about 2% = - 7%). If you are hoping for a 4% yield or interest rate, if the yield rises from 2.11% to about 4.11% - the decline will be about 15/16%. I can only make one promise in the investment industry and it is this: If yields rise in bondland, market prices will decline (promise). There is a mathematical formula that can be followed to determine just how low market prices will decline. What is 'very difficult' to predict is whether or when bond yields will rise or fall. But we feel and have felt for some time that yields will rise and returns will be very difficult to obtain in bonds until we reach a higher level. This could take quite some time. You can follow the yield curve daily in the Globe and Mail. It is a very important indicator. More serious investors should start doing so now.

If you look at the Equity column you will note it has the highest average return and more years when it gets the best return but also has the highest number of negative years as well. Since 2009 (the last recession) we have had a number of years of good returns that have averaged almost 10%. We are 9 years into this business cycle and you can see from the 'blocks' of years for each cycle, we could easily be running out of time before we get another recession. You can also see that the worst returns for stocks occurs when we have recessions – such as 1969 to 1971, 1974, 1981, 1990, 2001-2002, and 2008. It is very true we feel the Cdn stock market is going higher to 16,000. We may even increase our target to 17,000 thereafter. But the truth is that it is difficult to find good value in most equity selections/sectors and trying to get the last 10% to 20% that remains in equity markets is always the riskier strategy. We prefer to buy equities at recession lows when we have much more value to work with than at business cycle highs and we feel we are closer to the highs than the lows. We do not feel it is a conservative strategy to invest in equities at current levels…..sorry, but that is our view. We do NOT feel you should be void of equities – just a little underweighted.

Therefore, from a traditional asset allocation, there is not much value available in any of the above traditional 3 asset classes. We are therefore looking at some 'alternative' solutions. Interestingly, the Chief Wealth Strategist at TD Wealth agrees with our position and recently wrote a white paper on this exact topic. We will distribute his article to all our clients with this CMO.

Until we get a recession (causing stocks to decline by 20 to 30% or more) in the next few years or that bond yields rise to more attractive levels (and while they are rising bonds will be poor return generators) we feel returns will be subpar and chasing them or putting pressure on your portfolio (or us) to get them, will not lead to satisfactory results. There ARE some pre-recessionary conditions that are starting to appear such as high real estate valuations, rising interest rates, solid unemployment levels, good to solid earnings for most companies. The only reason to stay invested in equities, in our opinion, is because inflation remains tepid and the yield curve does not support a reason to be overly cautious. A review of the yield curve indicates it is upward sloping and it would be very strange to have a recession with this condition. Short term rates (i.e. 90 day treasury bills) are less than 1%, 6 month yields are slightly above 1%, 2 year bond yields are 1.6%, 5 year yields are 1.8% and the 10 year is at 2.11% but there is little difference between a 90 day T-Bill at say .9% and the 10 year yield at 2.11%. If inflation returns OR central banks feel they must increase yields to levels that will give them future monetary stimulus if, as, and when we have a recession – there is not much room on the yield curve before it flattens out and perhaps 'inverts'. I remind everyone that an 'inverted' yield curve would almost certainly forecast a recession. Should that situation develop you may rest assured we will be writing you and advising our clients to reduce equity exposure further than what you have done to date. Many clients have already lowered their Investment Profile and reduced their equity exposure.

PLEASE NOTE YOU – NOT AWMG - CONTROL YOUR OWN INVESTMENT PROFILE

Changing your Investment Profile is NOT part of the 'discretionary' service that we offer. Every client must decide for themselves what Investment Profile they would like to use. Please read on. Do not get aught holding more equity than you desire….CHANGE/REDUCE your profile to your desired level….keep reading top of page 4.

59 Years of History

Comparative Rates of Return for the Major Asset Classes
Canadian Capital Markets

	Year		Fixed Income: Cash – Short Term T-Bills	Fixed Income: Bonds – Long Term Bond Index	Equity: Stocks – TSE Index	Average	Inflation	GDP Growth
1	1959		4.6	-5.1	4.6	1.4	1.3	3.9
2	1960 R		3.3	12.2	1.8	5.8	1.3	2.9
3	1961		2.9	9.2	32.8	15.0	0.6	3.1
4	1962		4.2	5.0	-7.0	0.7	1.3	7.1
5	1963	Cycle 1	3.6	4.6	15.6	7.9	1.9	5.2
6	1964		3.8	6.2	25.4	11.8	1.8	6.7
7	1965		3.9	0.1	6.7	3.6	2.4	6.6
8	1966		5.0	-1.1	-7.1	-1.1	3.5	6.8
9	1967		4.5	-0.5	18.1	7.4	3.7	2.9
10	1968		6.4	2.1	22.5	10.3	4.1	5.4
11	1969 R		7.1	-2.9	-0.8	1.1	4.5	5.4
12	1970	Cycle 2	6.7	16.4	-3.6	6.5	3.3	2.6
13	1971		3.8	14.8	8.0	8.9	2.9	5.8
14	1972		3.6	8.1	27.4	13.0	4.7	5.7
15	1973		5.1	1.9	0.3	2.4	7.7	7.7
16	1974 R		7.9	-4.5	-25.9	-7.5	10.9	4.4
17	1975		7.4	8.0	18.5	11.3	10.8	2.6
18	1976	Cycle 3	9.3	23.6	11.0	14.6	7.5	6.2
19	1977		7.7	9.0	10.7	9.1	8.0	3.6
20	1978		8.3	4.1	29.7	14.0	8.8	4.6
21	1979		11.4	-2.9	44.8	17.8	9.2	3.9
22	1980		15.0	6.6	30.1	17.2	10.2	1.5
	Ave Returns First 22 Years		6.2	5.2	12.0	7.8	5.0	4.8
	No. shaded Yrs		5	5	12			
23	1981 R		18.4	4.2	-10.3	4.1	12.5	3.7
24	1982 R		15.4	35.4	5.5	18.8	10.8	-3.2
25	1983		9.6	11.5	35.5	18.9	5.8	3.2
26	1984	Cycle 4	11.6	14.7	-2.4	8.0	4.4	6.3
27	1985		9.9	21.2	25.1	18.7	4.0	4.8
28	1986		9.3	14.7	9.0	11.0	4.1	3.3
29	1987		8.5	4.0	5.9	6.1	4.4	4.2
30	1988		9.4	9.9	11.1	10.1	4.1	5.0
31	1989		12.4	13.2	21.4	15.7	5.2	2.4
32	1990 R		12.9	7.3	-14.7	1.8	5.0	-0.2
33	1991		8.6	21.6	12.0	14.1	3.8	-1.8
34	1992		7.1	9.8	-1.4	5.2	2.1	0.8
35	1993		5.5	17.5	32.6	18.5	1.7	2.2
36	1994		5.4	-4.3	-0.2	0.3	0.2	4.6
37	1995	Cycle 5	7.6	20.5	14.5	14.2	1.8	2.3
38	1996		4.8	12.2	28.3	15.1	2.2	1.3
39	1997		3.2	9.7	15.0	9.3	0.7	3.0
40	1998		4.7	9.2	-1.6	4.1	1.0	1.5
41	1999		4.7	-1.1	31.7	11.8	2.6	4.5
42	2000		5.3	10.2	7.4	7.6	3.2	4.0
43	2001 R		4.2	8.1	-12.6	-0.1	0.7	1.0
44	2002 R		2.5	8.7	-12.4	-0.4	4.2	3.0
45	2003		3.0	6.6	26.7	12.1	3.0	4.0
46	2004		2.3	7.1	14.5	8.0	2.0	3.0
47	2005	Cycle 6	2.5	6.5	24.1	11.0	3.0	4.2
48	2006		4.0	4.0	17.3	8.4	1.8	3.0
49	2007		4.3	3.8	9.8	6.0	2.2	3.0
50	2008 R		3.1	19.7	-33.0	-3.4	1.6	-1.5
51	2009		0.5	-6.3	35.1	9.8	1.0	-4.0
52	2010		0.4	6.7	17.6	8.2	1.5	2.0
53	2011		1.0	9.7	-8.7	0.7	2.0	1.5
54	2012	Cycle 7	0.9	3.6	7.2	3.9	1.5	1.8
55	2013		1.0	-1.2	13.0	4.3	1.8	2.0
56	2014		0.9	8.8	10.6	6.8	1.5	1.8
57	2015		0.6	3.5	-8.3	-1.4	3.1	1.3
58	2016		0.5	1.7	21.1	7.8	1.5	1.8
59	2017 - Q3		1.0	0	2.0	1.0	1.0	2.0
	Ave Returns Next 36 Years		5.6	9.0	9.4	8.0	3.1	2.2
	No. shaded Yrs		4	13	19			
	Average Return Over 58 Years		5.8	7.6	10.4	8.0	3.8	3.2
	No. shaded Yrs		9	18	32			
	No. of yrs with Negative Returns		0	10	16			
	Ave Return During Negative Yrs			-2.1	-9.4			

Sources: Bloomberg Finance L.P., Bank of Canada

<u>What do we mean by lowering your Investment Profile?</u>

Here are the investment profiles that we use in our work and the lower, upper, and target weights for equity participation from very low risk to very high risk. Please note we believe these profiles as a group are 'conservative'. For example, Canada Pension has about 60% of their assets in equities. Would you consider this to be 'Balanced' or 'Balanced Growth'? Some of you might but others of you might consider this to be far too aggressive for their personal assets. So you must choose your investment profile and can make changes to this profile *<u>at any time</u>*.

Investment Profile	Cash Reserves	Fixed Income	Equity	Equity Target
Reasonable level of Safety	0% to 100%	0% to 40%	0%	0%
Conservative Income	0% to 100%	0% to 100%	0% to 35%	20%
Balanced Income	0% to 30%	50% to 90%	10% to 50%	25%
Balanced	0% to 30%	40% to 70%	25% to 65%	35%
Balanced Growth	0% to 30%	20% to 60%	45% to 75%	50%
Growth	0% to 50%	0% to 50%	50% to 100%	70%
Aggressive Growth	0% to 60%	0% to 60%	70% to 100%	80%

We ask our clients to choose their own Investment Profile. We CANNOT and WILL NOT do it for any client. We can provide a questionnaire to help clients determine the risks they are prepared to take and therefore the most appropriate profile for them. And, as mentioned above, you can change your profile at any time. AFTER the profile has been selected we can then offer our discretionary portfolio management services to build you what we consider to be the best 'risk-adjusted' portfolio we can muster.

<u>Tim, could you give us an example – please?</u>

Certainly, but we must make some assumptions. Let us assume the stock or equity market goes UP 20% in Year 1 and then down 20% in Year 2. We will also assume interest rates are about 1%.

Return for the client that has chosen the 'Balanced Income' as their profile:

- Year One – 25% (see Equity Target above) goes UP 20%; balance gets a 1% return:
  - Return on Equities = 25% times 20% = 5%
  - Return on Fixed Income = 75% times 1% = .75%
  - Therefore net return in Year 1 is 5% + .75% = 5.75%
- Year Two – (we ignore compounding) – note that equities decline 20%; balance gets a 1% return:
  - Return on Equities = 25% times -20% = - 5%
  - Return on Fixed Income = 75% times 1% = .75%
  - Therefore net return in Year 2 is -5% + .75% = -4.25%
- Return over 2 years is 1.5% and average return is .75%

Return for the client that has chosen the 'Growth' profile as their profile:

- Year One – 70% (see Equity Target above) goes UP 20%; balance gets a 1% return:
  - Return on Equities = 70% times 20% = 14%
  - Return on Fixed Income = 30% times 1% = .3%
  - Therefore net return in Year 1 is 14% + .3% = 14.3%
- Year Two – (we ignore compounding) – note that equities decline 20%; balance gets a 1% return:
  - Return on Equities = 70% times -20% = - 14%
  - Return on Fixed Income = 30% times 1% = .3%
  - Therefore net return in Year 2 is -14% + .3% = -13.7%
- Return over 2 years is .6% and average return is .3%

There is little difference between the conservative profile versus the aggressive profile – the return over 2 years being 1.5% for the conservative profile versus .6% for the more aggressive profile. The KEY for both is therefore to reduce exposure to equities BEFORE the onset of the 20% decline in Year Two. I agree this is difficult and such is easier said than done. BUT one either agrees that 'timing' is important or that it cannot be done. We, at AWMG, believe 'timing' is 'very important' and we use the business cycle and the many corresponding indicators for each business cycle as our proxy to help make our decisions for the advice to over or under weight equities. As we write this CMO (September, 2017) we believe equities should continue to get you the higher return (versus Fixed Income and Cash Reserves) but we are suggesting to our clients with 'conservative' profiles to consider moving down one or two notches from their normal profile based, of course, on their individual investment objectives and risk tolerances. Equity market risks are rising. We are having trouble finding selections that meet our requirements for reasonable value. It is true our target for the

TSX (now at 15,474) stands at 16,000 but we feel this market has much more risk than when it was lower. While we will try it is very difficult to pick the level and exact date when the market will top out.

Fees

We believe our fees are very fair and reasonable and will give you an idea of what they cover. Our fees are based on 2 considerations: (1) the total amount you have to invest (in all accounts); and (2) the percentage of (1) you then want invested in equities. I will give you an example below. We encourage total transparency when it comes to fees and we hide nothing (we dislike 'hidden' fees). Most management expense ratios (MER's) for mutual funds are 'hidden' and tend to be higher than our fee structure and less tax friendly. The fees we charge in a taxable portfolio (as opposed to an RSP/RIF, ET, or TFSA) are tax deductible but with mutual funds *nothing* is tax deductible. Furthermore, we think it is allowable to lower the fee on a registered account and increase it in a taxable account to be even more tax efficient. Call us to explore this suggestion if you have both registered and taxable accounts with us.

Here is our current fee structure:

Household Assets	Number of Trades	AWMG Fee More than 25% in Equities	AWMG Fee Less than 25% in Equities
$125,000 to $499,999	60	1.80%	1.35%
$500,000 to $999,999	90	1.60%	1.00%
$1,000,000 to $1,999,999	130	1.35%	.85%
$2,000,000 to $5,000,000	180	1.15%	.70%
$5,000,000 to $9,999,999	250	.80%	.55%
Above $10,000,000	350	Negotiable	Negotiable

As you can see from the above the higher the assets under management, the lower the fee; also, the higher the percentage amount desired in equities (presumably to try and get a higher return), the higher the fee.

Here is an example. Let us suppose you have an RSP valued around $400,000, a spouse with an RSP valued around $300,000, 2 TFSA's valued around $50,000 each, and a modest taxable account valued around $400,000 for a total amount of net assets of $1,200,000. Both parties have completed the Investment Profile Questionnaire and have determined their Investment Profile is 'Balanced' (see page 4) for both. The Balanced Profile implies a target weight of 35% in Equities. That would be 35% of the combined assets of $1,200,000. Looking at the above matrix, the fee would therefore be 1.35% per annum.

Now let's further assume these clients would like us to be as 'tax efficient' as possible. They realize the total fees they must pay will be 1.35% of $1,200,000 = $16,200 – combined for all accounts and they will have 5 accounts (2 TFSA's, 2 RSP's, and a joint taxable account). TD Wealth Private Investment Advice have mandated to us that the minimum fee we MUST charge for this size of a household is 1%. Therefore, in our discussions with the client it has been decided to charge the 2 TFSA's at $50,000 each – 1% and the 2 RSP's (one at $400,000, the other at $300,000) – also 1%. This amounts to $500 for each of the TFSA's and $7,000 for the RSP's = $8,000. The net fee to the taxable account of $400,000 to get to the agreed upon total fee of $16,200 would be $16,200 less $8,000 = $8,200. This is a fee percentage charge to the taxable account of 2.05% as opposed to 1.35%. So we are undercharging the TFSA's and RSP's and overcharging (slightly) the taxable account. Why do we do this? Because fees charged on TFSA's and RSP's are NOT tax deducible while fees charged to taxable portfolios ARE tax deductible. The fee being charged to the taxable account is $8,700 and much depends at this stage of the discussion how the clients have arranged to have their taxable account 'taxed' and the marginal tax rates of each spouse. If you do not understand – please call us to discuss this very tax efficient strategy. Please review this with us to help save money.

Now what do you get for your fees?

Here is a short list of just some of the areas we cover:

1. On tax planning strategies - we are NOT trying to replace your tax professional and encourage you to have a healthy discussion with them (have them call us if need be):
   a. RSP's, RIF's, TFSA's features and a thorough discussion of the pros and cons.
   b. By engaging TD specialists – the use of 'spousal loans' (this one idea can save all your fees after tax – annually!!!).

c. By engaging TD specialists, tax efficient fees for your registered assets (call us for details).
d. By engaging TD specialists, 'synthetic loans' (to lower the cost of your Lines of Credit and make the interest expense tax deductible).
e. Estate planning strategies (trusts, etc.)
f. Establishing a corporation.
g. Establishing a Education Trust

2. On investment planning
    a. Implementation of a Profile Questionnaire to determine each client's Investment Profile – an analysis of the many risks in the capital markets and each client's sensitivity.
    b. A thorough discussion around current investment conditions and events in the business cycle and final advice to a client's choice for their Investment Profile and ongoing support and advice for changing this profile.
    c. Portfolio management – discretionary or otherwise – we strive to get each client the best 'risk-adjusted and tax effective return' possible. Building and maintaining properly balanced and properly diversified portfolios for each Investment Profile mentioned can be 'very demanding'.
3. On wealth planning and estate planning strategies
    a. We can provide, based on the size of your assets, access to many specialists. We can also provide overviews and snapshots which we believe can be extremely useful to most clients.

Inflation and the Economy

The recent inflation stats, in August, came out at 1.4% - a very respectable number given the Bank of Canada's target of 2%. It was up from July's rate of 1.2% which is not great news but, in our view, no reason to panic. Apparently the major culprit was rising gasoline prices – which is puzzling given the low oil prices. That said, Hurricane Harvey knocked out about 25% of U.S. refining capacity – so it will take a little time to get this back on line. Obviously we have and continue to live through a long period of low inflation and low growth.

Clearly rising interest rates is not due to 'inflationary pressures' but rather a return to normal monetary policy rates after the tremendous decline in interest rates to historic lows. The question remains: 'what is normal?'

We believe the economy is in the final few innings of this business cycle that started in early 2009; perhaps lasting for another year or two or maybe even 3 more years. This will NOT be a good environment for conservative clients or those clients that prefer higher returns. I say this because we believe that this is normally a period of time when the more volatile cyclical stocks like to shine – stocks in sectors such as energy, mining, the gold sector, and selected industrial stocks. But we may have difficulty overweighting these sectors since they can be very volatile and do not suit the majority of our conservative clients. But, as always, we will do our best.

Fixed Income Comments

After raising interest rates aggressively in 2017, the Bank of Canada altered its course at the end of September when it signaled a lower chance for an interest rate increase at its October 25th meeting. This was yet another surprise to the market which had priced in about a 60% chance that said rate hike would come to pass. BoC Governor Poloz does not appear to care about the market volatility arising from his inconsistent monetary policy signaling as he has gone from being dovish to hawkish to dovish again in just a few quarters. In fairness, although I'm inclined not to grant him any as I believe he's made mistakes this year with his signaling, he's likely grown somewhat concerned about the near 3yr high of the Canadian dollar against the U.S. that we saw in September as well as the impact that Ontario's new housing regulations have had on home prices in the country's largest regional housing market (to the downside). No country wants an expensive currency these days, especially Canada where we depend more on exports for economic growth than other G7 countries.

Not only has our currency moved to new interim highs, but Canada's interest rates have also moved materially higher this year. To September 28th, the U.S. and Canadian bond markets as measured by the broad market fixed income ETFs (AGG in the U.S. and XBB in Canada) are down -2.54% and -6.18%(!) respectively. Total returns are indeed higher because of the interest one receives through these ETFs but are still negative and clearly show the pressure that fixed income allocations will be putting on overall portfolio returns for 2017.

Thankfully our exposure has been limited to shorter term GIC's, shorter term corporate bonds and strips, and select preferred shares – all of which have performed much better than the broader fixed income markets. We're quite pleased with our fixed income holdings as many of our holdings will mature over the next year or two. Not only

should they generate a healthy positive return over that time frame, but the maturity proceeds will be able to be reinvested into the higher interest rate environment should yields continue to drift higher.

It's worth noting GIC's no longer offer strong compelling value relative to the entire government and corporate bond markets however their yields are still superior to most conservative options. Most GIC issuers have been slower than the market to raise their interest rates so we're being patient save for a few issuers in deploying money to the space. We've added to some short-term term corporate bonds that are now attractively priced and maintain our overweight in rate-reset preferred shares most of which have guaranteed floor coupons (and therefore are much safer than the broader preferred share market).

AWMG Model Portfolios

Avg Annual Returns*	CAD Model	U.S. Model
YTD**	10.3%	11.4%
1-year*	44.2%	-1.2%
3-year*	16.6%	7.0%
5-year*	15.9%	N/A
10-year*	15.6%	N/A
Since Inception*	14.7%	6.7%

**To 12/31/2016*

*** To 10/13/2017*

Note: Returns are before annual fees

Source: Bloomberg

The Canadian model portfolio is UP 8.2% versus about 3% for the TSX S&P index. We will outline our holdings with weightings in parentheses. We are delighted with this performance and it has been led by ***Air Canada*** (7.68%) which is up over 90% in 2017. Recently we sold one third of our holding of ***Air Canada*** and 10% of our holding in ***Cargojet*** (5.83%). Earlier we had replaced our position in ***Encana*** with ***Vermillion Energy (5.29%)***. ***Parklawn Corporation (5.06%), Maple Leaf Foods (4.34%), and Medreleaf*** (***1.18%*** - a marijuana company) are all up over 20% so far in 2017. We added, in early September, a position in ***Great Canadian Gaming*** but when it was announced they had some legal issues, we decided to sell it (for a 10% loss) and watch it from the sidelines. The other selections in the portfolio are ***Brookfield Asset Management (3.92%), T D Bank (4.31%), K Bro Linen (4.09%), Evertz Technologies (4.66%), MacDonald Dettwiler (4.18%), Aecon (3.86%), Martinrea 4.77%), Chorus Aviation (13.06%), Parex Resources (7.69%), Trans Canada Pipe (3.71%), Altagas Receipts (3.05%), and the I-Shares Gold ETF (3.39%).*** There is a weighting of ***almost 10% in Cash Reserves***. There are 18 selections in the portfolio (we try not to have more than 20) and are really pleased that 16 of them are up in value over their cost base. The ***Altagas Receipts*** were purchased at $31 and are currently valued at $28.89 and the ***I-Shares Gold*** were purchased at $11.191 and have a current value of $11.14. I hope you would all agree these are very modest declines.

The U.S. model portfolio – has struggled a little bit in 2017 but we are reasonable pleased with the performance. That is because it is UP 8.4% versus 11.7% for the S&P 500. However, the increase in the Cdn dollar has pulled this nice return lower so we are happy we have over weighted the Cdn model above in most portfolios and it has more than done the job. Recently we doubled our position in ***Newell Brands (5.08%), added Ciena (2.75%) and TencentHoldings (4.46%),*** and sold our position in ***General Electric***. Our other 12 selections, with weightings in parentheses, are ***Bank of N Y Mellon (7.94%), AIG Warrants (4.05%), Time Warner (5.81%), Merck (4.71%), Starbucks (4.95%), Fairmount (6.55%), Procter and Gamble (5.30%), Gilead Science, (6.97%), Google (13.39%), Microsemi (4.37%), Western Digital (8.92%), and Monsanto (5.77%) with Cash Reserves at 9.0%.***

Summary

Risk or no risk, equities are likely going higher. Fixed Income returns will be low, muted, and perhaps negative. Enjoy the article on 'alternative investments'. Please call us if you have any questions – PLEASE!!!

As always we would really appreciate any referrals to your family, friends, or work colleagues.

Enjoy the Autumn colors – we intend to….our best to all…see you in 3 months

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