



Financial Services

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Dear Clients and Friends

The Bank of Canada made a small increase to its overnight rate a few weeks ago; the recovery in Oil prices has continued to stall, housing prices have reached a new high according to the Teranet-National Bank House Price Index and new political tensions have arisen between U.S. and North Korea. In addition market volatility has been uncharacteristically low so now is a good time to provide commentary on some economic issues that are most relevant to your investments with us. A performance update is also provided on selected Investment Funds at the end of this report.

Economic Summary and Market Update

The prevailing consensus is that there is a broad-based and synchronized economic recovery on a global basis all during a period of increased political tensions from North Korea and a gradual increase in interest rates worldwide.

Corporate earnings are expected to continue to grow in the U.S. and Europe and this may be supportive of equity markets through the second half of this year despite the belief that valuations of many sectors in the U.S. stock market have reached or are close to their historical average. Many of the portfolio managers that I follow and whose Funds I recommend are adjusting their cash and bond positions due to the change in interest rates and are starting to increase allocations to Canadian and European Equities.

The combination of an increasing interest rate environment with maturing equity valuations however may cause an increase in volatility levels. According to JPMorgan, the largest peak-to-trough pullback in the S&P 500 Index this year has been only 3%, whereas the average intra-year pullback since 1980 has been 14% and only once has it been as low as 3% (in 1995).

Holiday Notice

Cheryl and I will be away on holidays from August 19th through September 4th. During this time I will be able to monitor emails and in the event of an emergency I can be reached on my cell at 905 541 1023. For all other investment services please contact my Branch Office as follows:

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Mutual funds and some segregated funds provided by the fund companies are offered through Worldsource Financial Management Inc. All other products and services including tax preparation and financial planning are offered through Westdale Financial Services Inc.

Crude Oil Prices

Oil remains the big story for Canada. Despite the fact that OPEC has been lowering production, the U.S. has increased its rig count and its production has not allowed global supply to drop off fast enough to support higher prices. According to Dina Ignjatovic, Economist at TD Bank Crude oil prices picked up reaching a two-month high of US \$49 per barrel by the end of July and have dropped a bit since then. Recent increases were prompted recent declines in weekly U.S. inventories and a pledge from Saudi Arabia to reduce exports, particularly to the U.S. where stock levels are heavily scrutinized.

Canadian Economy

Updated figures from Statistics Canada revealed a seventh consecutive monthly gain in GDP by industry in May which was sufficient to push year-over-year growth from 3.3% to 4.6%. This is the fastest annual growth rate since October 2000 (4.7%). The monthly gains were widespread, with 14 of the 20 major sub-sectors posting an advance. The surprising strength of the domestic economy is likely to fuel speculation of another rate hike from the Bank of Canada at their next meeting on September 6. Frankly I'm hoping they show some patience as fast increases to interest rates may put additional pressure on both the country's housing market and consumers with a high level of debt.

U.S.

Halfway through the year, U.S. President Donald Trump still has not been able to deliver the steep tax cuts and a massive economic stimulus program he had promised during his campaign. U.S. equity markets have shrugged off the delay for now.

In his article in "Wealth Professional" on July 14th, Joe Rosengarten observed that "the U.S. economy has a strong footing with low unemployment, good consumer confidence and healthy consumer balance sheets". At its June meeting, the U.S. Federal Reserve raised the federal funds rate by 25 bps to 1.25%, as expected.

Pierre Trottier, a Portfolio Manager at Industrial Alliance Investment Management Inc., believes that the U.S. equity market is not as overvalued as others think. Since December 30th of last year, the S&P 500 is trading at 16.9 times forward earnings, which is just fractionally higher than its 25 year average of 15.9.

"Also, looking at the S&P 500, there is no bubble in any sector," Trottier says. "In 2007, for example, there was a bubble in financials, but now there is no bubble anywhere, so that is more encouraging. The dividend yield, and other metrics that measure valuations, also show there is no over valuation in the market right now."

India

Investor confidence in India has improved dramatically, making it a favoured destination for investors. In particular, large Canadian institutional investors are taking advantage of the diversified range of opportunities in one of the world's fastest-growing major economies. Among them are the Canada Pension Plan Investment Board, Caisse de dépôt et placement du Québec, and the Ontario Teacher's Pension Plan.

Reforms are dramatically transforming India's economy and in the long term they should position it to be a globally competitive, innovation-driven economy. A new GST should widen the tax net in an economy and architects of the reform say it will stoke efficiency and growth by creating a common market of 1.3 billion consumers -- a population greater than the U.S., Europe, Brazil, Mexico and Japan combined.

Asset Allocation

The current tension between the US and North Korea is a reminder of the impact of political events on market turbulence and the importance of keeping to a diversified portfolio. Similar to the political unrest stemming from the Brexit vote last year, the current situation between U.S. and North Korea underscores the importance of holding government bonds in a portfolio. Those bond positions provide excellent defense when equity prices fall and it is impossible to time when that strategy is required.

Selected Investment Funds sorted by Risk Category and Performance

The use of any one of the investment funds listed below offers the potential for growth and defense when it is needed the most. I continue to monitor this list and may make substitutions and new recommendations to you from time to time as required.

Fund Name	Category**	Risk*	Compound Return as of June 30 th , 2017 ¹						
			1 Mo	3 Mo	6 Mo	1 Yr	3 Yr	5 Yr	Since Inception*
Symmetry Conservative Income Portfolio Series A (FEL)	1	L	-1.41	.16	2.09	3.88	3.40	N/A	4.25
Sun Life Granite Conservative Portfolio Series A (FEL)	2	L	-1.39	.61	3.04	4.02	4.13	5.42	5.16
Dynamic Global Asset Allocation Series A (FEL)	5	LM	-2.63	3.34	7.20	11.29	11.63	10.65	5.35
TD Tactical Monthly Income Fund (FEL)	6	LM	-1.07	-.44	1.66	1.66	5.47	N/A	7.70
Sun Life Granite Moderate Portfolio Series A (FEL)	4	LM	-1.82	.69	3.56	6.12	5.32	7.42	7.04
Cambridge Asset Allocation Corporate Class A (FEL)	6	LM	-1.86	.07	.95	5.95	4.80	8.51	5.65
BMO Tactical Dividend ETF Advisor Series (FEL)	6	M	-.20	1.11	4.56	11.73	5.75	N/A	7.39
Sun Life Granite Balanced Growth (FEL)	5	M	-2.31	.78	4.17	8.38	6.65	9.49	8.94
Fidelity Tactical Strategies Series B (FEL)	6	M	-2.85	.95	4.81	10.71	6.67	7.81	5.97

*Risk

L refers to "Low Risk"

LM refers to "Low to Moderate Risk"

M refers to "Moderate Risk"

Asset Class Category

1. Canadian Fixed Income

2. Global Fixed Income Balanced

3. Canadian Neutral Balanced

4. Global Neutral Balanced

5. Global Equity Balanced

6. Tactical Balanced

Since Inception

The compound annual return of a fund for a selected period will not be displayed if the inception date of the fund has a shorter time frame.

¹ All performance information has been taken from FUNDATA as of June 30th, 2017.

Notice to Reader: The listing of the mutual funds above provides risk category and performance data information as of the date indicated. The indicated rates of return are historical annual compound total returns including changes in unit value and the reinvestment of all distributions and do not take into account sales, redemption, distribution, optional charges or income taxes payable by any security holder that would have reduced returns. The content of this page is not to be used or construed as investment advice or as an offer or solicitation for any investment product. Although we endeavour to ensure its accuracy and completeness, we assume no responsibility for any human or mechanical errors or omissions in this information provided. Please read the prospectus before investing. Commissions, trailing commissions, management fees and expenses all may be associated with mutual fund investments. Mutual funds are not guaranteed, their values change frequently and past performance may not be repeated.

Advisor Commentary on Selected Investment Funds

Note: A reference is made to “upside and downside capture” in my comments below.

Upside capture: If the ratio is greater than 1 then the Fund has performed better than the market and if it is less than 1 then the fund’s performance was less than the market gain.

Downside capture: If the ratio is greater than 1, then the Fund’s loss is greater than the market and if it is less than 1 then the Fund loss less than the market.

Low Risk

Sun Life Granite Conservative Portfolio

While this investment is not classified as a “Tactical Balanced Fund”, the Sun Life Granite line up is popular with my clients as many different risk groups are offered, and within each, a tactical asset allocation strategy is employed to take advantage of market opportunities and manage risk. An exterior group of Managers are used to tap into a wide range of expertise while the lead Portfolio Manager actively monitors economic indicators and market fluctuations. He may change the asset mix + -10% within pre-set guidelines as shown below. Most of the securities are allocated to developed countries. Both the Conservative and Moderate Portfolio are a good fit for those in or approaching retirement. While not top in their class as far as performance is concerned the Portfolio Manager keeps the volatility low which is critical for retirees at this stage of the market cycle.

Upside Downside Capture

According to Morningstar, as of July 31st 2017, the Sun Life Granite Conservative Portfolio has an upside capture of 77% over the last 3 year period and the downside capture is 94%.

Portfolio Name	Risk	Strategic Asset Allocation	
		Fixed Income	Equity
SL Granite Conservative	Low	73%	27%
SL Granite Moderate	Low/Medium	53%	47%
SL Granite Balanced	Low/Medium	40%	60%
SL Granite Balanced Growth	Medium	30%	70%
SL Granite Growth	Medium	20%	80%

Low/Medium Risk

Cambridge Asset Allocation Fund

In contrast the Cambridge Asset Allocation Fund is not part of a “family” of other products with different risk levels. However it is categorized as Tactical Balanced. This means the Fund Manager has the ability to make significant asset allocation changes... much more than the +/- 10% restriction in the Sun Life lineup. This product has one of the longest histories (inception Dec. 2007) compared to other products. While its performance is below standards year to date it has an excellent performance history and a record of relatively low volatility. It is an excellent choice for those in or approaching retirement due to its extensive diversification. The Portfolio Manager will invest directly or indirectly in primarily equity and fixed income securities of Canadian companies and holds very little securities in emerging markets.

Upside/Downside Capture

According to Morningstar, as of July 31st 2017, the upside capture of the fund is 49% over the last 3 year period and the downside capture is 54% over the same period.

Medium Risk

BMO Tactical Dividend ETF Fund

This fund combines active, tactical management with passive Exchange Trades Funds (ETF's). The Portfolio Manager uses a combination of market statistics and macroeconomic forecast, paired with fundamental and technical analysis to build the portfolio. In addition the Portfolio Manager will insert “covered calls” on many ETF's to minimize losses during negative trading periods. The target investment mix is a maximum of 20% Fixed Income meaning the Equity Portion can vary from 80% to 100%. While this investment fund is rated Medium Risk, the Portfolio Manager is very defensive at this time. The current “Beta” of the fund is only .34. A beta score of 1 or more would mean an investment's volatility is equal or greater than the market while a beta score of less than 1 is indicative of how little the investment would be affected by changes in the market.

Upside/Downside Capture

Morningstar reports this product's upside capture is 49% over the last 3 year period and the downside capture is 36% over the same period.

Notice to Reader

“The information contained herein is for general information purposes only and is based on the perspectives and opinions of the author only. The information is derived from various sources including commentary from Portfolio Managers from various firms. Index information has been obtained from the S&P/TSX Composite and S&P 500 historical data provided by Google Finance. It is provided with the understanding that it may not be relied upon as, nor considered to be, the rendering of tax, legal, accounting, or professional advice. Please contact us to discuss your particular circumstances. The information provided is obtained from sources believed to be reliable, however, no warranty can be made as to its accuracy and completeness. Worldsource Financial Management Inc. does not assume any liability for any inaccuracies in the information provided. Commissions, trailing commissions, management fees and expenses all may be associated with mutual fund investments. Please read the prospectus before investing. Mutual funds are not guaranteed, their values change frequently and past performance may not be repeated.”