Westdale
Financial Services

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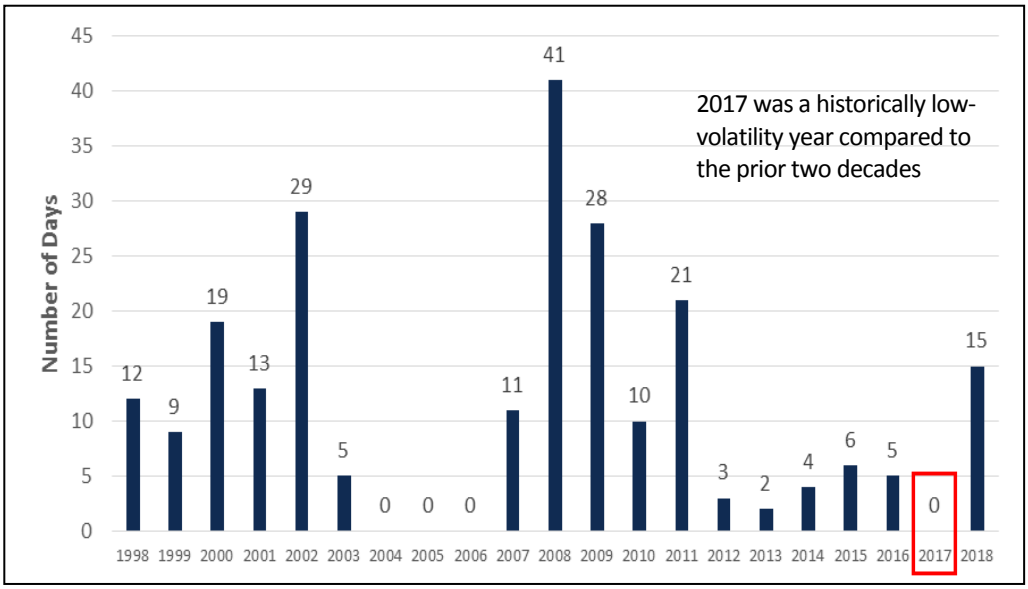
Dear Clients and Friends

It's now ten years since the 2008 Global Financial Crisis and given the recent period of volatility this could be an important year for investors. Therefore this newsletter edition will provide a brief summary of 2018 results and in the second half will summarize investment guidelines and expectations for the year ahead.

A continued rise in interest rates, lowering oil prices, unresolved issues with Brexit and U.S./China relations collectively caused an ever changing shift in investor's confidence in economic fundamentals throughout last year. As a result volatility spiked to levels not seen since 2009 and 2011. As illustrated in the chart below, last year investment markets returned to a more "normal" range of volatility. Despite the fact that the data refers to the S&P500 (U.S. Equity Market) most global markets behaved about the same fashion in 2018. 2017 produced an exception to the normal levels of volatility as 0 days of losses greater than 2% were recorded. That changed to 15 days last year. A spike in volatility to these levels is not always associated with negative year-end results, however in 2018 most asset classes did not produce higher than a 2% return and virtually all *basic asset allocation* techniques performed negatively.

Diversification helped but did not eliminate market value decline. Also this was the first time that many diversified bonds and equity portfolios were negative since 1985.



Source: Bloomberg Finance L.P., CI Investments. S&P 500 TR USD as of December 31, 2018.

WORLDSOURCE FINANCIAL MANAGEMENT INC. MUTUAL FUND DEALER

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.

Selected Index Results in 2018 (in CDN Dollars)

The Canadian Stock Market was down	**-11.64%**	The S&P 500 (U.S. Equity) gained	1.97%
The European Market was down	**-11.2%**	Canadian Bond Market was up	1.53%
The MSCI World Index ended 2018 at	**-2.59%**		
Emerging Markets declined	**-9.34%**		

Specific Product Results

Selected Series F Products	**Risk Level**	**Rate of Return 2018**
BMO Global Tactical Asset Allocation ETI	LM	6.79%
Dynamic Global Asset Allocation	LM	6.56%
Manulife Global Balanced	LM	2.74%
Mackenzie Floating Rate Income Fund	LM	2.70%
Sun Life Granite Moderate Portfolio	LM	-1.78%
Mackenzie Global Strategic Income	LM	-2.16%
TD Tactical Monthly Income	LM	-2.89%
BMO Tactical Dividend ETF	LM	-3.37%
SUN EXCEL India	H	-4.50%
Dynamic Financial Services	M	-6.05%
Trimark Emerging Markets	MH	-17.31%

(All Rates of Return as of December 31st, 2018; Source: Fundata)

Despite this some of our top recommendations (displayed to the left) performed equal or better than the general market conditions. Of course your actual account performance will depend on investments held in your account, their specific performance, how much was allocated to each one, how long each investment was held throughout the year and the timing of purchases and withdrawals. Changes in market conditions are obviously outside the control of an Investor, an Advisor and a Portfolio Manager. What is in my control is who I recommend. My "Preferred List" is always up for review and I continue to conduct regular meetings with our Fund Managers and/or receive reports on both their economic views and how their Fund is currently designed. I still favor the use of a "Tactical Balanced" Fund or an alternative balanced fund with a strategic tactical strategy *especially during this age and stage of the market cycle.* A Portfolio Manager of these types of investments has the ability to adjust the portfolio to evolving market conditions and in 2018 their actions demonstrated the benefits of using this strategy for our clients. Here is a brief summary from some of them:

Recommended "Tactical Balanced" or other "Balanced" Investment Funds

Dynamic Global Asset Allocation Fund – Portfolio Manager: David Fingold

The recent volatility in the markets is not a huge concern to David as he invests in high quality companies that have a track-record of outperforming the broader market when volatility picks up. His 2018 results are a testament to that. Typically volatility creates nervousness in the markets but when there is an extreme oversold position as what happened last fall, markets are primed for a bounce. David acknowledges however that for a lot of investors the stock market hasn't been a fun place to be since the end of September but he has a high level of conviction in the securities held in the portfolio.

All Data is Series F (Source: Fundata)

Fund Name	Category*	Risk*	Compound Return as of December 31st, 2018							
			1 Mo	3 Mo	6 Mo	**YTD**	1 Yr	3 Yr	5 Yr	Since Inception
Dynamic Global Asset Allocation	Tactical Balanced	LM	-1.76	-6.36	-1.48	**6.56**	6.56	5.84	9.46	6.46

BMO Tactical Dividend ETF – Portfolio Manager: Larry Berman

Larry currently has this fund positioned with a beta score of 82.4%. This means Larry is currently in more of an offensive mode give the recent correction and current fundamentals. In his view the S&P 500 fell much lower than expected and the recent jobs data from the U.S. and comments from the Federal Reserve were positive. He feels that corporate earnings will be a positive this year and expectations of a trade deal should support markets for a while. While he is concerned that global data is weakening he does not feel that a recession is coming until 2020. Referring again to U.S. employment and that corporate earnings is still expanding, he states "we cannot have a recession in this environment".

Larry will however alter the portfolio to a very defensive mode as quickly as is needed. He says, "Markets are about where we are heading and our total return philosophy will shift assets to duration and currency exposures where we can generate positive returns in a bear market scenario. Traditional balanced funds will underperform in the coming years--a mandate like ours is essential."

BMO Tactical Global Asset Allocation ETF – Portfolio Manager: SIA Wealth Management, Paul Vendrinsky

This fund was launched in April 2016 and is managed using ETFs for both equities as well as fixed income. It is not restricted to BMO ETFs; the Portfolio Manager can own any North American listed ETF with the exception that it cannot own a leveraged ETF. The Equity sleeve of the portfolio will also hold 25% direct securities. What I like is the tactical asset allocation bands are very wide - Equities can range from 0-60%, and Fixed Income can range from 40%-100%. In other words this is an "unconstrained mandate" and in down markets it can protect capital by being up to 100% in cash and fixed income. I also like their buy and sell discipline to preserve capital.

All Data is Series F (Source: Fundata)

Fund Name	Category*	Risk*	Compound Return as of December 31st, 2018							
			1 Mo	3 Mo	6 Mo	**YTD**	1 Yr	3 Yr	5 Yr	Since Inception
BMO Tactical Dividend ETF	Tactical Balanced	LM	-4.35	-6.50	-5.99	**-3.37**	-3.37	4.96	5.24	5.96
BMO Tactical Global Asset Allocation ETF*	Tactical Balanced	LM	.17	-2.80	-1.22	**6.79**	6.79	N/A	N/A	7.27

*inception is April 28th, 2016.

TD Tactical Monthly Income – Portfolio Manager: Dino Venaina

This fund generated a minor negative return in 2018 but came out close to the top of our other mandates as a result of their stock selection, allocation to fixed income and U.S. dollar appreciation. The Fund Manager's preference towards U.S. over Canadian stocks benefited the fund. Despite an eventful and more volatile year, dividend income continued to grow, with 93% of stock holdings increasing dividends at an average 14%. On the currency front, the fund has a tactical approach to manage currency risk, with ~23% exposure to the U.S. dollar.

All Data is Series F (Source: Fundata)

Fund Name	Category*	Risk*	Compound Return as of December 31st, 2018							
			1 Mo	3 Mo	6 Mo	**YTD**	1 Yr	3 Yr	5 Yr	Since Inception
TD Tactical Monthly Income	Tactical Balanced	LM	-3.71	-5.62	-3.90	**-2.89**	-2.89	4.80	5.86	7.06

Sun Life Granite Moderate Portfolio – Portfolio Manager: Sadiq Adatia

Due to uncertainty in Europe, trade war between U.S. and China, low oil prices and continued monetary tightening or normalization, the Portfolio Manager expects volatility to persist in the markets and is therefore in a defensive position. The portfolio is neutral with respect to U.S equities, underweight Europe, underweight fixed income and has an overweight position in Cash. Sadiq favours Japan more than Europe at this point.. Brexit is still an issue that needs to be resolved by March 2019. He sees Emerging Markets as offering the most opportunity and is overweight in that asset class as a result. This sector has been oversold and valuations are in a very good spot. In addition fundamentals are strong and interest rate policy in many EM countries remains flexible. The biggest concern is the trade tensions but if these relax over the first 90 days of the year EM can have a strong rebound.

All Data is Series F (Source: Fundata)

Fund Name	Category*	Risk*	Compound Return as of December 31st, 2018							
			1 Mo	3 Mo	6 Mo	**YTD**	1 Yr	3 Yr	5 Yr	Since Inception
Sun Life Granite Moderate Portfolio	Global Neutral Balanced	LM	-1.84	-3.80	-3.46	**-1.78**	-1.78	3.38	5.31	6.65

Recommended Investment Funds to Customize your Account Design

Floating Rate Loans

We have been suggesting the Mackenzie Floating Rate Income Fund to clients over the course of this year as an increasing interest rate environment is supportive of this investment. It is of course not immune to price fluctuations as experienced in the past several months but few investments turned a positive rate of return in 2018. Its low volatility is one of the popular reasons to help customize your account design. According to Steve Locke, the Portfolio Manager at Mackenzie

Investments, the loan market remains relatively healthy as measured by borrower earnings, default rates and percentage of loans trading at stressed levels. In addition Steve feels there is a healthy macroeconomic backdrop including a good U.S. economic expansion, near record-low unemployment, wage growth and low inflation. He expects the U.S. economy will continue to do well in 2019 and that all the "basic" reasons for investing in this product, such as low volatility and historically high recovery asset class remain intact.

All Data is Series F (Source: Fundata)

Recommended Fund Name	Category*	Risk*	**Compound Return as of December 31st, 2018**							
			1 Mo	3 Mo	6 Mo	**YTD**	1 Yr	3 Yr	5 Yr	Since Inception
Mackenzie Floating Rate Income	Floating Rate Loan	LM	-1.46	-2.48	-1.15	**2.70**	2.70	6.77	4.40	4.81

Canadian and U.S. Financials

The Dynamic Financial Services Fund is another product that has been recommended over the past year due to the expectation that an increasing rate environment will help boost earnings in the Financial Sector. This seemed to hold true for half of last year and the general market downturn affected this Fund as well. There is a point where the combination of high consumer debt and increasing interest rates may start to affect consumer spending, loan growth and credit quality for Banks and if this occurs this could result in a weaker mortgage market for the Banks. For the time being we recommend that clients continue to hold this investment as the sharp sell off last quarter has created an opportunity for recovery given the economic fundamentals.

All Data is Series F (Source: Fundata)

Recommended Fund Name	Category*	Risk*	**Compound Return as of December 31st, 2018**							
			1 Mo	3 Mo	6 Mo	**YTD**	1 Yr	3 Yr	5 Yr	Since Inception
Dynamic Financial Services Fund	Financial Services	M	-6.64	-12.34	-6.67	**-6.05**	-6.05	12.87	9.62	7.35

Gold

Gold stocks by contrast, could shine if recent market volatility continues into 2019. Gold's historically defensive characteristics have not been evident over the past few years, but Analysts believe that the combination of global trade actions, the uncertain interest rate environment and broad investor hesitation could result in Gold regaining at least some of its historical portfolio benefits. It seems that this trend already started over the past several months as the drawdown from stocks was in Gold's favour. Gold is also perceived as a safe haven in times of economic and financial instability and performs better when the U.S. Dollar is stable or weakening. The specific product recommended is shown in the table below:

All Data is Series F (Source: Fundata)

Recommended Fund Name	Category*	Risk*	Compound Return as of December 31st, 2018							
			1 Mo	3 Mo	6 Mo	**YTD**	1 Yr	3 Yr	5 Yr	Since Inception
Mackenzie Gold Bullion Class A	Commodity	MH	7.54	12.83	4.87	**4.07**	4.07	3.24	3.54	1.99

Energy and Oil

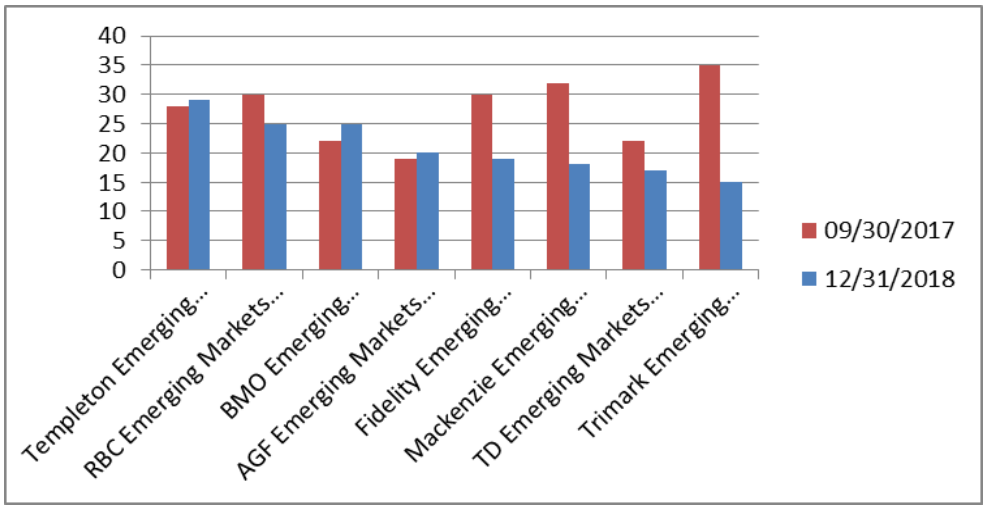
The energy market has been difficult to rationalize recently. West Texas Intermediate oil prices fell to $46 per barrel on December 28th despite that OPEC announced a significant oil production cut of 1.2 million barrels per day, Libya's largest oilfield cut production by 300,000 barrels per day, and reports of falling investment in U.S. shale producing regions. All these factors point towards better conditions ahead for the oil market, but are not yet reflected in oil prices. In the short term, it seems highly likely that oil is being dragged down not by any developments in the oil market itself, but rather by the broader stock market malaise. Energy experts believe the oil market is undergoing a rebalancing process that should lead to higher prices over the next 12 months.

All Data is Series F (Source: Fundata)

Recommended Fund Name	Category*	Risk*	Compound Return as of December 31st, 2018							
			1 Mo	3 Mo	6 Mo	**YTD**	1 Yr	3 Yr	5 Yr	Since Inception
BMO Global Energy Class-Series A	Energy Equity	H	-6.36	-18.60	-17.43	**-5.71**	-5.71	7.72	-2.22	6.04

Emerging Markets

In the short term the outlook for this asset class is mixed as market volatility is expected to continue. If the U.S. Dollar strengthens or holds this could lead to tighter global financial conditions which will once again negatively affect emerging market investments in 2019. However if the Federal Reserve (U.S.) holds interest rates this would help their performance. While 2018 was a disappointing year for this asset class, valuations are significantly below the G7 market indexes and for long term investors this could be a prime opportunity to hold or buy into this investment.



Advisor's Emerging Market Scorecard

Over the past two years the Mackenzie Emerging Markets Fund and the Trimark Emerging Markets Fund were

recommended due to their prior historical record. Our year-end scorecard indicates that their results have not been good compared to other available funds in their peer group. The chart above shows that the Templeton, RBC and BMO products have the best results based on the financial metrics I use in my score card while the Mackenzie, Fidelity and Trimark's scores have dropped significantly compared to our September 30th, 2017 analysis. I suggest that if you hold one of these products in either a Front End or Fee for Service version you may benefit from switching to any one of the three listed below.

All Data is Series F (Source: Fundata)

Recommended Fund Name	Category*	Risk*		**Compound Return as of December 31st, 2018**						
			1 Mo	3 Mo	6 Mo	**YTD**	1 Yr	3 Yr	5 Yr	Since Inception
Templeton Emerging Markets	Emerging Market Equity	MH	-.31	-3.91	-5.5	**-10.06**	-10.06	12.29	7.01	6.70
RBC Emerging Markets	Emerging Market Equity	MH	.67	2.02	.42	**-2.63**	-2.63	8.15	9.55	7.74
BMO Emerging Markets	Emerging Market Equity	MH	1.53	2.51	-3.27	**-4.96**	-4.96	7.64	8.33	9.17

India

An alternative to investing in Emerging Markets (which invests in Companies in potentially a dozen different emerging economies) is to select an investment that concentrates its holdings in *one primary geographical area*. India is one of the most popular in this category due to its growing population and purchasing power. By 2035, the UN projects India's population will have reached almost 1.6 billion, on its way to a peak of almost 1.7 billion by the early 2060s. India is the world's third largest economy measured in purchasing power parity terms and, on some measures, will be the fastest growing large economy in the world in coming years.

The IMF forecasts growth of 7.3% in 2019 and 7.5% the following year. In contrast, China's growth is forecast to slow to 6.4% next year from 6.6% in 2018. Investors can access this opportunity through the SUN EXCEL India product which I have been recommending to clients for over fifteen years.

All Data is Series F (Source: Fundata)

Recommended Fund Name	Category*	Risk*		**Compound Return as of December 31st, 2018**						
			1 Mo	3 Mo	6 Mo	**YTD**	1 Yr	3 Yr	5 Yr	Since Inception
Sun EXCEL India	Geographic Equity	H	3.14	8.74	.003	**-4.50**	-4.50	9.44	18.57	9.67

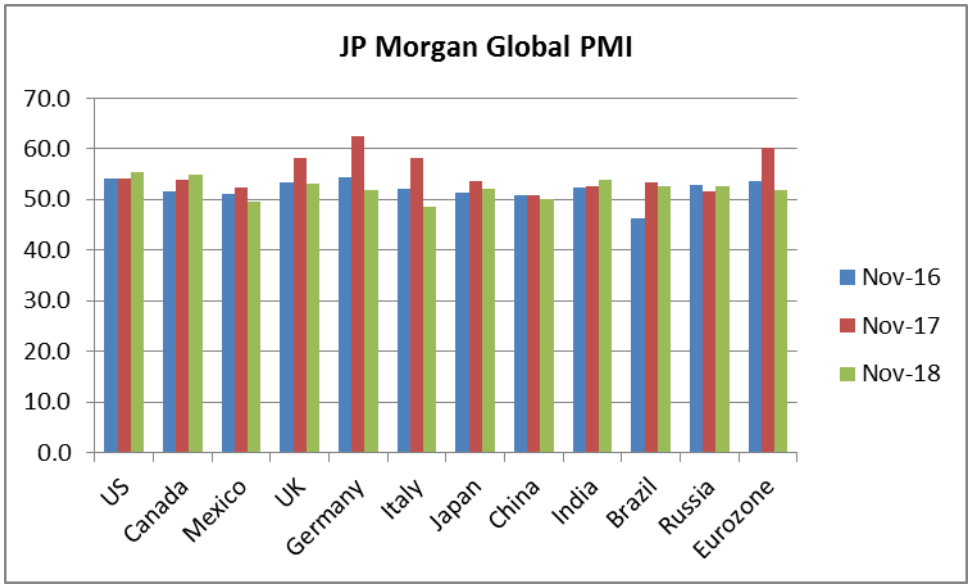
Summary - Current and Expected Economic Conditions in 2019

The only certainty is uncertainty when it comes to economic conditions and how investments will fare in 2019. **There is no question we are in the late stages of the economic cycle however consensus is there is a low probability of a recession in the coming 12 months.**

According to the World Trade Organization's Chief economist, leading indicators point to a meaningful slowdown in world trade in 2019 centered around how trade conflicts could weigh on businesses, consumer sentiment and spending around the world. On another front the International Monetary Fund recently wrote about concerns regarding growing debt to households, companies and countries which becomes more burdensome as rates rise. The latter is no surprise as I've written about worldwide debt as a tough opponent to economic growth for years.

Despite the concern over world trade and debt many developed and emerging economies are expected to grow throughout the coming year supported by low inflation and relatively low global interest rates.

The JP Morgan Global PMI (Purchasing Manager's Index) is one source of information that is used by Analysts to assess the status of the global economy. The key observation is whether a country's PMI score is growing or declining. Another key data point is whether the score is above or below 50 as scores above this level indicates economic expansion. In the chart below the PMI score for the last 3 years is displayed from 12 of the top economies in the world. With the exception of Mexico and Italy all countries or economic regions are reporting a PMI > 50… for the moment.



(Source: Manulife Investments, Bloomberg)

Our managers are generally Neutral to Cautiously Optimistic on 2019. Most expect the U.S. economy to slow as fiscal stimulus fades, but U.S. GDP is expected to grow (+2%) and Corporate Earnings are expected to grow in the 8% range as well. As such, our base case remains that underlying economic fundamentals will ultimately prevail. So long as the U.S. economy slows in an orderly manner, and there are no signs of accelerating inflation, the Fed will likely pause in tightening, especially as recent inflation data and energy prices have both softened in recent months.

Therefore my best advice is to stick with using the most suitable Tactical Balanced Fund for your risk as your core holding and perhaps one or two custom investments depending on your objectives.

RRSP Deadline

This year RRSP Deadline is March 1st however due to my vacation start (February 28th), please arrange a time to see me or call me with your plans no later than Monday February 25th. The maximum RRSP contribution you can make in 2019 is as per your 2017 Notice of Assessment. This will tell you how much you have available in contribution room based on your carry-forward history. Each taxpayer is responsible for knowing their contribution limit.

Vacation Notice

Cheryl and I will be away from February 28th through April 1st. While I'm away however I will be able to send and receive emails, perform account performance and complete any investment transactions. While I will not be available for personal meetings I have signed up to the "Go-to-Meeting" service and if necessary we can conduct a meeting through that technology. Don't ever hesitate to send me an email during this time. Alternatively you can contact our Branch Office and the contact information is below:

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TFSA Contributions

The TFSA Contribution limit for 2019 is $6,000 per person plus any unused TFSA contribution room from the past. The lifetime annual limit in 2018 was $57,500 per person. This means that an individual who could contribute a lump sum of $63,500 in 2019 if no contributions have been made in the past. We will be sending out a TFSA contribution letter to clients in the next week.

10% Free Letter

Each year you have the opportunity to transfer all of any matured units from an investment to the "Free" (FEL or FFS) version of the same investment without any penalty. This is a service we have been providing for years and most clients should be getting close to eliminating all unmatured units in their accounts. Our annual "10% Free Transfer" Letter will be send out soon as well.

**Introducing "Perspective$"** – a financial planning program developed by Westdale Financial Services… targeted to individuals and young families under the age of 45. This is an excellent financial planning service to introduce to others especially your children who are of working age and starting to create their financial footprint. The program is robus in that it looks at a person's disposable income and current savings and will help determine the best place to allocate available funds… to investments, short term debt, mortgage or saving for a future home renovation or home purchase. Watch for our advertisement about "Perspective$" ..coming soon.

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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.