# The Sandler Quarterly

Wealth Management
Dominion Securities

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The third quarter has been a particularly active time for news headlines. Since writing our last newsletter we have seen an escalation in North Korean tensions, a devastating hurricane season, a major earthquake and continued White House antics. President Trump can't seem to go 24 hours without tweeting something shocking and incendiary. In corporate news, the reach of Amazon's disruption seems to widen by the day and is striking fear in the hearts of CEOs everywhere. In Canada we have witnessed two interest rate increases and the resulting volatility in currency, bond and stock markets.

On a positive note, all evidence points to the fact that the global economy is in a phase of coordinated growth. Economies in North America, Europe and Asia are all expanding concurrently. The expansionary monetary policies of the past decade are having the desired effect in almost every country and region.

For the most part global stock markets have enjoyed the benefits of this growth; the one notable exception to this is Canada. Through September 30th, 2017 the S&P/TSX Composite Index is only up 2.27% year-to-date, lagging most other markets. In addition, Canadian investors have also suffered unremarkable returns on US investments even though that market has shown significant strength. When reflected in Canadian dollar terms much of the gain in US markets is eroded due to recent appreciation of the Loonie versus the US dollar (please see *Figure 1*). Priced in USD, the S&P 500 is only up 4.45% year-to-date.

## Stephen Sandler Update

Beginning in 2018, Stephen Sandler will take a well-deserved step back from day to day operations. Over the last 48 years, Stephen has built one of the country's leading investment management practices. In recent years he has positioned the Sandler Wealth Management Group for the future. First, by joining RBC Dominion Securities, Canada's preeminent wealth management firm and then by expanding the group to include nine professionals with almost two hundred years of combined industry experience. Stephen will play an active role as part of our Investment Committee which meets on a monthly basis to review current strategy and determine the group's market outlook and portfolio holdings. He will also be available to the team more frequently as needed. His ongoing counsel will ensure that your investments are managed to the same high standard that you have become accustomed to.

# Quarterly Review

Q3 2017

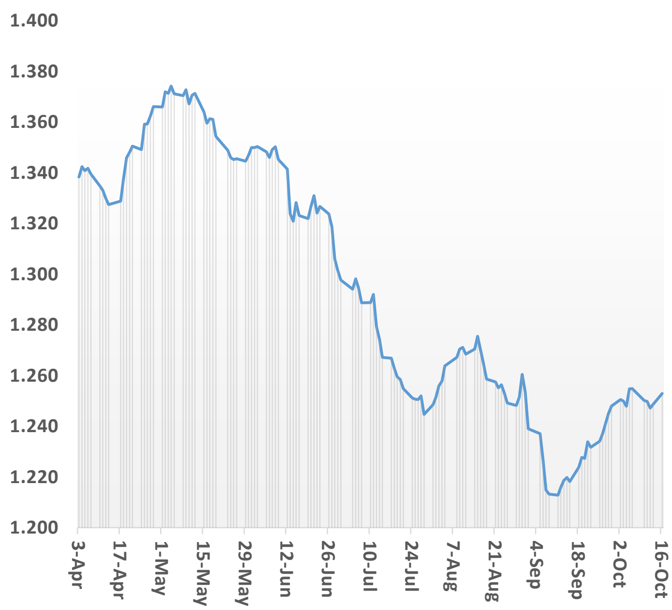


***Figure 1:*** *USDCAD Exchange Rate*
(Bank of Canada, 2017)

We have had a successful third quarter. Our portfolios performed well despite lackluster Canadian markets, a strong Canadian dollar and persistently low (although somewhat improved) bond yields. Please see your attached portfolio report for a summary of your personal rate of return. Our focus on income investing has proven itself once again this year. The stable and predictable stream of interest and dividends has delivered an investment return regardless of market movements.

Our cash holdings remain higher than normal; this is by design. While we do not see a bear market on the horizon, we would not be surprised to see a healthy market correction in the coming months. Should this happen we will be well served by holding some extra cash. It will dampen any resulting declines and provide dry powder with which to make some new investments at lower prices.

Over the past few months many clients have asked us if we should decrease our market exposure and hold even more cash. North Korea, natural disasters and Trump uncertainty have understandably caused a lot of people concern.

Yet despite all of this the market has marched higher, bolstering our belief that as long as there are no signs of an imminent recession we must stay the course and remain invested.

RBC's investment strategists track several indicators that forewarn of an economic contraction in its Recessionary Scorecard. Utilizing these indicators as a gauge, we are currently not seeing any signs that point to concern in the near future. Tax reform in the United States should provide a market tailwind in the coming months. In theory, lower tax would result in corporations retaining more of their earnings. The market would reward this with higher prices. In fact, we may already be starting to see some of this priced into the market.

From a Canadian perspective, trade related issues and a renegotiation of NAFTA will be an ongoing focus. We recently saw Bombardier suffer as a result of a proposed tariff on planes sold to US airlines. We are not directly affected by this action, but we will be closely watching for repercussions that could affect our investments. We believe that our current holdings are relatively well insulated in this regard.

The two recent interest rate increases by the Bank of Canada in July and September have had a meaningful impact on the bond market. Yields have moved higher across government and corporate debt. We have been able to add some new short-term bonds to portfolios with improved yields.

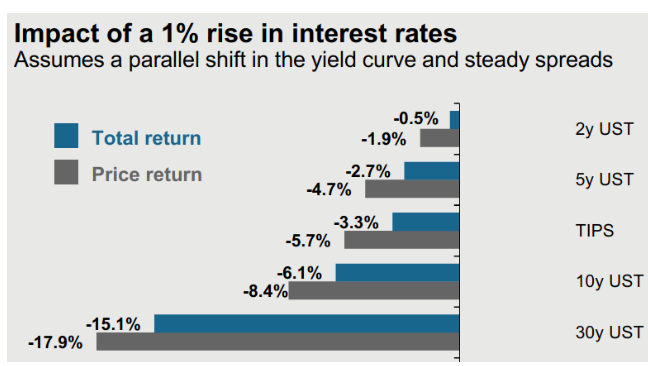


***Figure 2:*** *Relationship between maturity and interest rates*
*(JP Morgan, 2017)*

# Quarterly Review
Q3 2017

In a rising interest rate environment, bonds with a longer term to maturity will generally see larger price declines. Please see *Figure 2* which shows the sensitivity to interest rate changes for various terms of US Treasury bonds. With this in mind, we will continue to purchase bonds with short terms to maturity to take advantage of rising rates.

In summary, 2017 has been a positive year so far and we feel that our current investment stance positions your portfolio well for the remainder of the year.

Thank you for entrusting us with your investments. We value and appreciate your business.

Sincerely,

Stephen Sandler
Vice President & Portfolio Manager

Ronan Clohissey
Vice President & Portfolio Manager

Scott Sandler
Vice President & Portfolio Manager

| **Indices** | **2017 Q3** | **YTD** |
|---|---|---|
| S&P/TSX | 3.66% | 4.39% |
| Dow | 5.56% | 15.31% |
| S&P | 4.46% | 14.14% |
| Nasdaq | 6.05% | 21.65% |
| Euro Stox | 4.76% | 12.34% |
| Nikkei | 2.23% | 8.11% |
| S&P BSE | 1.60% | 18.82% |
| VIX | -14.93% | -32.26% |
| **Commodities** | **2017 Q3** | **YTD** |
| Gold | 3.07% | 11.53% |
| Silver | 0.14% | 4.57% |
| Coppper | 8.52% | 16.46% |
| Oil | 12.23% | -3.82% |
| Natural Gas | -1.96% | -21.62% |
| **Currencies** | **2017 Q3** | **YTD** |
| CAD | 3.95% | 7.77% |
| EUR | 7.84% | 12.33% |
| JPY | -0.16% | 3.98% |
| AUD | 1.89% | 8.68% |
| GBP | 2.86% | 8.56% |

***YTD Ending September 30th, 2017*

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