Important Commentary relating to your portfolio performance in 2019 & Our views on the markets going forward.

As we get a few weeks into the year 2020, we wanted to provide you with our thoughts on the year ahead, while taking a quick look back at the markets in 2019.

Thoughts on 2019

Going into 2019, there was a ton of volatility and fear in the stock market. As you will recall, there was a major correction that finally hit a bottom in late December 2018. At the beginning of January 2019, many investors were quite nervous about the year ahead, and the headlines present throughout financial media sure did not help matters. At that time, we were maintaining our message that the focus needs to remain on the economic data available, and to not be swayed by the panic-inducing going on in the media. We did not see any substantial reason why the market should have fallen off as much as it did, and were fully expecting a recovery. We maintained our exposure to equity (slightly overweight at the time), and throughout 2019 we watched as the markets staged a very nice recovery, and ended up producing one of the best performance years of the last decade. There was plenty of uncertainty in the world (mostly due to political matters), however the economic data never got to a point where we felt it necessary to get extremely defensive.

Turning our focus to our equity model: we are extremely happy with how our businesses performed in 2019. Throughout the year, some tactical changes were made to increase exposure to various sectors (such as energy and health care) when they were trading at lower values than was warranted at the time. We were also overweight Canadian industrials for some time, and many of the companies in this sector, including CP Rail (CP), CargoJet (CJT), Waste Connections (WCN) and WSP Global (WSP) have been some of our best performers. We continue to value quality businesses, regardless of the sector they are in.

Additions we made to the US model in 2019 include: Crown Castle (CCI), Honeywell (HON), Constellation Brands (STZ), Medtronic (MDT), Merck (MRK), Thermo Fisher (TMO) and Zoetis (ZTS). Many of these have seen very large gains since their entry into the portfolio. We also had a substantial weighting of information technology and communication services companies, such as Visa (V), Facebook (FB), Alphabet

(GOOG), Microsoft (MSFT), Apple (AAPL) and Docusign (DOCU). These were all major contributors to the gains in our portfolios in 2019.

We also removed some companies from our model throughout the year, including Kraft Heinz (KHC), DowDupont (DWDP), CSX Rail (CSX) & Pfizer (PFE). These companies have greatly underperformed the market since they were sold.

Current thoughts – the year ahead

We also have been making some adjustments to our discretionary portfolio in January. Since we are near all-time highs in the market, we have taken this opportunity from a position of strength to lock in some gains. During our semi-annual rebalance of our clients' asset allocation, we have also reduced our equity exposure by 2%. For example, a 70% equity-30% fixed income client would now be set at 68% - 32%. At the same time, we have repositioned each individual stock in our model to our desired weighting, which means we have trimmed some winners from 2019, and added to some relative underperformers (see attached PDF for a refresher on the positive effects of rebalancing). On a geographical basis, we favour US equities over Canada, and maintain a larger exposure to the US market within client portfolios.

We are still confident that the equity market can provide solid gains in the year ahead. However, in the short-term, there is increased likelihood of a minor pullback based on the levels that the markets are currently trading at. We felt it is prudent to take a small amount off the table at this time as part of managing the overall risk of client portfolios.

Recession indicators continue to predominantly be in favour of growth in the US economy. We remain vigilant and will continue to look for signs of weakness before making any major shifts from our current "Market Weight" equity position.

Indicator	Status		
Yield curve (10-year to 1-year Treasuries)	–	–	✓
Unemployment claims	✓	–	–
Unemployment rate	✓	–	–
Conference Board Leading Index	✓	–	–
ISM New Orders minus Inventories	–	✓	–
Fed funds rate vs. nominal GDP growth	✓	–	–
	Expansion	Neutral	Recessionary

Thank you again for your continued trust in us. We take great pride in providing you with quality portfolio management, as well as solutions to any of your wealth management needs.