Private Investment Management (Discretionary)

Wealth Management
Dominion Securities

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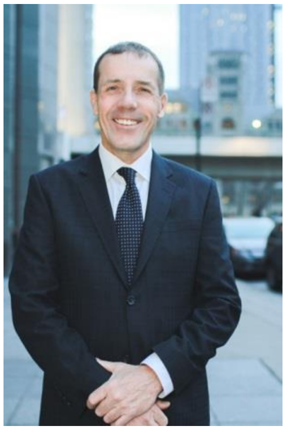

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Dear client

We would like to start this newsletter wishing happy new year 2019 to all of you and your close ones!!

2018 Financial Market Year in Review

Investors will remember the end of 2018 as painful on their portfolios. If 2018 was marked by the return of market volatility, the month of December was particularly marked by it to say the least. Those who were waiting for Santa Claus' rally, have experienced instead a dive of de 6 to 10% depending on the indices.

Not only did we sustain losses on the U.S. and Canadian market, but substantial losses were recorded in Europe, where stocks fell by 13 % according to the MSCI Europe index. The incertitude caused by Brexit in the UK has contributed to this decline, as well as the rise in populism in Italy which scared those who feared this event would radically shake the foundations of the European Union.

On the other side of the globe, the Chinese stock market has officially entered a downturn cycle with Shanghai Shenzhen index taking a plunge of 25% in 2018. Commercial tension between China and the U.S., as well as internal tension in the Middle Kingdom, have hurt China's economy. "The country took decisions to tighten credit conditions and the impact was felt throughout the world", explained Alex Bellefleur, economist and Chief investment strategist at Placements Mackenzie.

In Canada, tensions around the re-negotiation of the Free Trade Agreement with Donald Trump also had its toll on the S&P/TSX index of the Toronto Stock Market for the better part of 2018. The energy sector suffered due to the decline of oil prices. The raw material sector suffers since the Chinese economy pace has slowed. And financial institutions have a hard time due to the slump in housing market in Toronto and Vancouver and household debt.

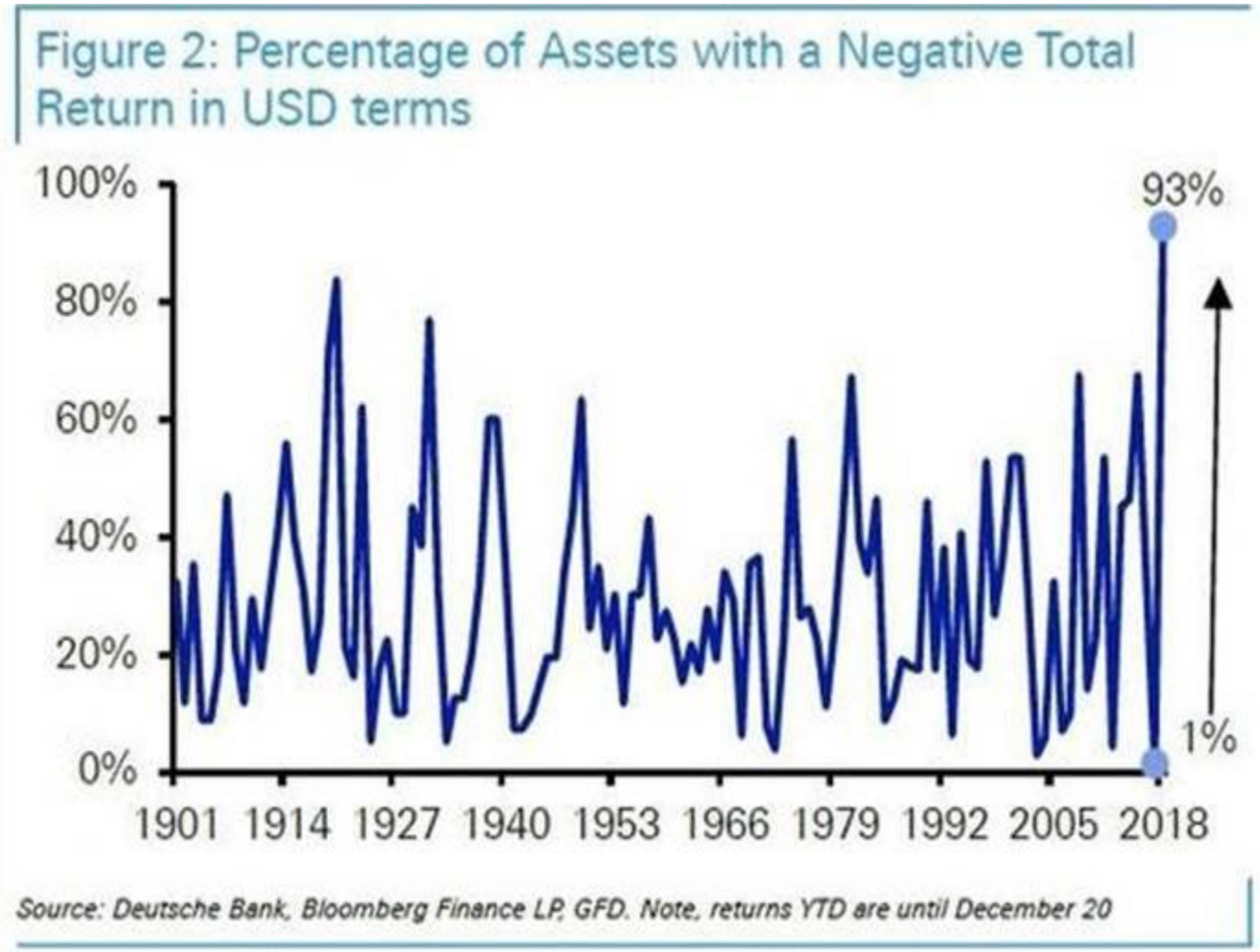
Even alternative asset classes, like raw materials, have not survived the shipwrecked. The oil, the gold, the silver, the wood, the aluminum, the copper… all have dropped.

The era of low interest rates came to an end. Like the U.S. Federal Reserve, the Bank of Canada continues to tighten credit conditions. The increase in interest rates has also undermined bonds' performances. In Canada, the Bond Index earned a poor 1.4%.

In fact, the U.S. dollar is one of the only assets which did manage to perform well in 2018. This is good news for all Canadian investors with investments in the U.S. The greenback's rise helped to limit loses on the American stock exchange.

All this means that investors with balanced portfolios will have a negative return in 2018, despite efforts to diversify their portfolios.

All in all, 2018 was a disappointing year. All assets categories were impacted, leaving little room for investors to make profits. Ned Davis Research investment management firm foresees that no asset category will generate a return higher than 5% in 2018. Such phenomenon has never occurred since 1972.



These poor results were caused, amongst other things, by the US Federal Reserve's new unwinding stimulus measures. While the U.S. central bank has tightened its key interest rate eight times since 2015, its European and Japanese counterparts have progressively terminated their accommodative monetary policies. These decisions, combined with the apprehension of a slowdown in the global economic growth, have undermined investors' confidence.

Table # 1

Return of different asset classes (indexes)	**Market value 12/31/2018**	**Return 2018 (2)**	**Since 3 years**	**12/31/1999 18 years**
Bonds (Dex bond universe)	1051.44	**1.41%**	1.86%	5.41%
S&P/TSX Composite Total Return index (2)	14322.86	**-8.89%**	6.36%	5.44%
S&P 500 Total Return index - US dollars (2)	2506.85	-4.38%	9.25%	4.86%
S&P 500 Total Return index - CAD$ dollars (1) et (2)	2506.85	**-3.72%**	6.76%	4.38%
MSCI Europe Index price return - US dollars	114.2	-13.10%	-2.47%	-0.83%
MSCI Europe Index price return - CAD$ dollars (1)	114.2	**-5.73%**	-2.32%	-1.09%
MSCI Emerging Markets Price return- US dollars	965.67	-16.64%	6.73%	3.64%
MSCI Emerging Markets Price return- CAD$ dollars (1)	965.67	**-9.57%**	4.83%	3.21%
Exchange rate US$/C$ (change%) (3)	$ 0.7333	**7.82%**	0.49%	0.31%

(1) Return after conversion to CAD$
(2) Return including dividends paid
(3) Exchange rate US$/CAD$ was 0.7955 on 12-31-17

2019 Stock Market Forecast (equities)

Last December 2nd, you received by email the “Global Insight 2019 Outlook” annual report prepared by RBC Wealth Management. Here is an extract from page 6 of this report that we recommend you read if you have not already done so.

"The corrections in 2018 exposed stresses in the global equity market but also reset valuations to more reasonable levels. We think the market has the capacity to absorb economic cooling, ongoing tariff risks, and monetary tightening, albeit with volatility.

Our constructive view hinges on low recession risks for major economies, particularly the U.S., and the likelihood corporate earnings growth will persist. **But 2019 returns could be modest and delivered unevenly; therefore, it is appropriate to trim equity exposure to a Market Weight level in global portfolios from a slight Overweight position."**

Here is a summary of key investment themes and 2019 outlook based on Mr. Myles Zyblock, Chief investment strategist at Dynamic Funds.

" If the excessive monetary tightening, the increase in trade war and a slowdown of economic growth are the root of our concerns, 2019 investment prospects will start to improve for the following reasons:

- U.S. monetary authorities have indicated that they will slow the pace of their monetary tightening policies, while other major central banks are postponing the start of their respective monetary tightening cycle;
- The Sino-American trade war seems to calm down, the USMCA (NAFTA) was signed and the most important bilateral trade agreement in history was reached between the European Union and Japan, effective March 2019;
- A global recession in the next year seems unlikely. The world's two largest economies, the U.S. and China, will largely contribute to the ongoing economic growth.
- General pessimism observed throughout 2018 investments may be exaggerated. Depressed stock markets, supported by high growth of earnings per share (between 5 and 10% in 2019), make place to potential returns between 5 to 10% on equities in 2019.

Consensus Estimates	GDP Growth (%)		EPS Growth (%)	
	2018E	2019E	2018E	2019E
World	3.7	3.6	15.7	8.4
US	2.9	2.6	24.2	8.6
Canada	2.1	2.1	13.6	10.9
Europe	2.0	1.8	7.2	9.0
Japan	1.0	1.0	3.4	4.3
Emerging Mkts	5.0	5.0	13.1	9.9
China	6.6	6.2	13.2	14.4
India	7.5	7.3	18.1	24.2
Brazil	1.3	2.4	20.9	18.2

Source: BofA Merrill Lynch, Bloomberg

As of Nov 30, 2018

The table above compares expected GDP growth between 2019 and 2018 (3.6% vs 3.7%). A 2.6% GDP growth is expected in the U.S, while 2.1% is expected in Canada.

Regarding societies' EPS growth (%), 2019's expected growth is situated at 8.4% globally, 8.6% in the U.S., 10.9% in Canada and 9.9% for emerging countries. This can be considered respectable growth rates although inferior to 2018's expectations.

It is important to keep in mind that after almost 10 years of economic expansion, we have most likely entered in the last phase of the cycle. Asset price volatility is expected to remain.''

RBC GAM: "With an eventful 2018 now over, it's natural to question what 2019 will have in store. And while that question can never be answered with certainty, using history as a guide may be useful.

Source: Bloomberg, RBC GAM. Data as of January 1, 1950 to December 18, 2018*

The graph above was provided by RBC GAM and gives an overview of the returns of the S&P500 index (U.S.) after a disappointing year, marked by excessive volatility despite strong earning growth.

"For the first time in 10-years, the S&P 500 posted a negative calendar year return. Due to the long stretch of time in-between, it may be easy to forget that down years are pretty normal. Since 1950, the stock market has fallen in 14 different periods, representing 20% of the time."

Some key takeaways:

- Markets returns have historically been positive 80% of the time.
- Negative returns are less frequent but should be expected on occasion.
- When markets fall, the following year has delivered a median return of 23.2%.
- Please keep in mind the past is not a guarantee of the future.

I would like to reiterate how sticking to your current game plan is often a better strategy than trying to predict when is the best to sell or buy. To emphasize the recommendation to stay invested, I encourage you to go to the following link:

http://images.engage.russellinvestments.com/Web/FrankRussellCompany/%7B4d494c8a-a26d-4f8f-9b7d-d0b1590b8da7%7D_ARTICLE_-_Impact_of_Staying_invested_2018-FR_FINAL.pdf?utm_campaign=NA-CANPCS_18_11_MonthlyPerformance_French_E&utm_medium=email&utm_source=Eloqua

Date	Position (CAD$)	Type	Price	Buy	Variation
08-Jun	Fidelity small Cap America	Reduce	41.76	37.33	11%
08-Jun	Thomson Reuters	Buy		52.50	
14-Jun	HPR Horizon Active Pref ETF	Reduce	9.61	9.19	4%
15-Jun	Banque Nationale priv série 38	Buy		25.05	
15-Jun	Dividend 15 Split Corp 5.25% priv	Buy		10.13	
18-Jun	SunLife Financial 4.45% priv série 4	Buy		21.07	
04-Sep	Thomson Reuters	Sell	58.56	52.50	10%
04-Sep	Banque de Montréal	Buy		106.96	
19-Nov	iShares Global Base Metals	Sell	11.60	14.32	-23%
21-Nov	Transcanada Corp	Sell	54.06	53.20	2%
29-Nov	Alimentation Couche-Tard	Reduce	69.16	53.50	23%
29-Nov	BMO Banks Index	Reduce	28.24	27.00	4%
29-Nov	Dollarama	Buy	35.70		
07-Dec	Intertape Polymer	Sell	15.92	21.72	-36%
17-Dec	Fiera Capital	Sell	10.96	12.39	-13%
18-Dec	Fidelity small Cap America	Sell	42.23	38.21	10%

Date	Position (US$)	Type	Price	Buy	Variation
28-Jun	Costco	Sell	209.25	160.12	23%
29-Jun	Alibaba	Addition	185.62		
29-Jun	JP Morgan	Addition	106.32		
09-Jul	CVS	Addition	67.82		
26-Jul	Nucor Corp	Sell	66.87	60.49	10%
26-Jul	Autonation	Addition	46.81		
22-Aug	Amazon	Reduce	1886.1457	880	53%
30-Nov	Autonation	Addition	37.2		
30-Nov	Visa	Reduce	139.81	75.7	46%
30-Nov	Vanguard Intl Equity Europe	Reduce	51.35	62.58	-22%
14-Dec	Vanguard Intl Equity Europe	Reduce	49.6012	62.58	-26%

As you were able to see, we were quite active with your portfolios' management. Please note transactions are not detailed on an individual basis.

Last September, all 3 bond funds were sold and replaced by RBC Core Plus Bond Pool. The first reason for this transaction is the lower management expense ratio of this fund compared to the three bond funds sold. The second reason is that this particular fund is in fact a bond pool which means that clients are now investing in more than 10 different bond funds instead of just 3. This will most likely result in more diversification and, therefore, reduce volatility. Also, this actively managed fund will allow to seize opportunities in the bond market.

At the beginning of last December, we realized we had accumulated capital gains. We, therefore, proceeded to a few sales (e.g. Intertape Polymer, Fiera Capital and Vanguard Europe) to reduce capital loss.

As recommended by RBC Global Asset Management Inc. (RBC GAM), we liquidated, in December, a few equity positions to reduce by 5% the overall equity exposure of all discretionary portfolios. As of December 31st, 2018, you will see that your portfolios have now a higher proportion of liquidity due to equity sales. These liquidities will be replaced at the beginning of 2019 by fixed-income securities to solidify portfolios composition, which will decrease volatility.

Although we shared with you all this information regarding 2018's returns, these return rates have to be compared to your long-term financial plan.

Do you estimate that your financial wealth (including your portfolios) has progressed as expected on a mid to long term horizon although the year 2018 was not a success? If it is the case, congratulations.

What are your projects, goals and/or questions which would require a discussion with us?

Once more, do not hesitate to contact us if needed. We have at our disposal all the resources needed to help you with your financial planning.