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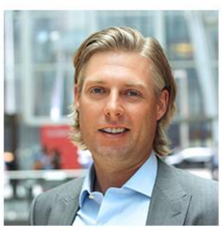

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What is happening: The S&P/TSX and S&P 500 are up a fraction this week. Like a boxer receiving multiple punches but not visiting the floor, markets have recuperated from trade-related punches all through the week. The key question among investors is, will there be a rotation within the stock market to other sectors or will a potential loss of leadership from the technology sector trigger a more broad-based correction? So far, a rotation seems to be playing out, thanks to S&P 500 EPS which are up ~24% YoY so far in Q2. Moreover, world central banks remain quiet with neither the BoE, Fed or BoJ rocking the boat this week.

Global economy – growth momentum still sliding. The momentum in global growth officially peaked in Q1/18 along with world non-financial corporate capex. Our baseline view calls for measured deceleration. World central banks and governments have reacted to trade tariffs by letting currency depreciation level the economic playing field with the US. In the case of China, the PBoC has forcefully reflated the economy to offset potential drags from tariffs. The Chinese yuan depreciation is unnerving but seems the only viable weapon for China to fight the US in an unequal battle. Interestingly, the yuan is approaching the 2016 level which coincided with the Federal Reserve backing off from its tightening bias. This time around, the Fed is unlikely to surrender. Most likely, President Trump will taper down on trade sanctions ahead of the November midterm elections, especially if financial markets go through another corrective phase this summer. The alternative scenario would cause further US$ appreciation, a key headwind to improving the US trade balance.

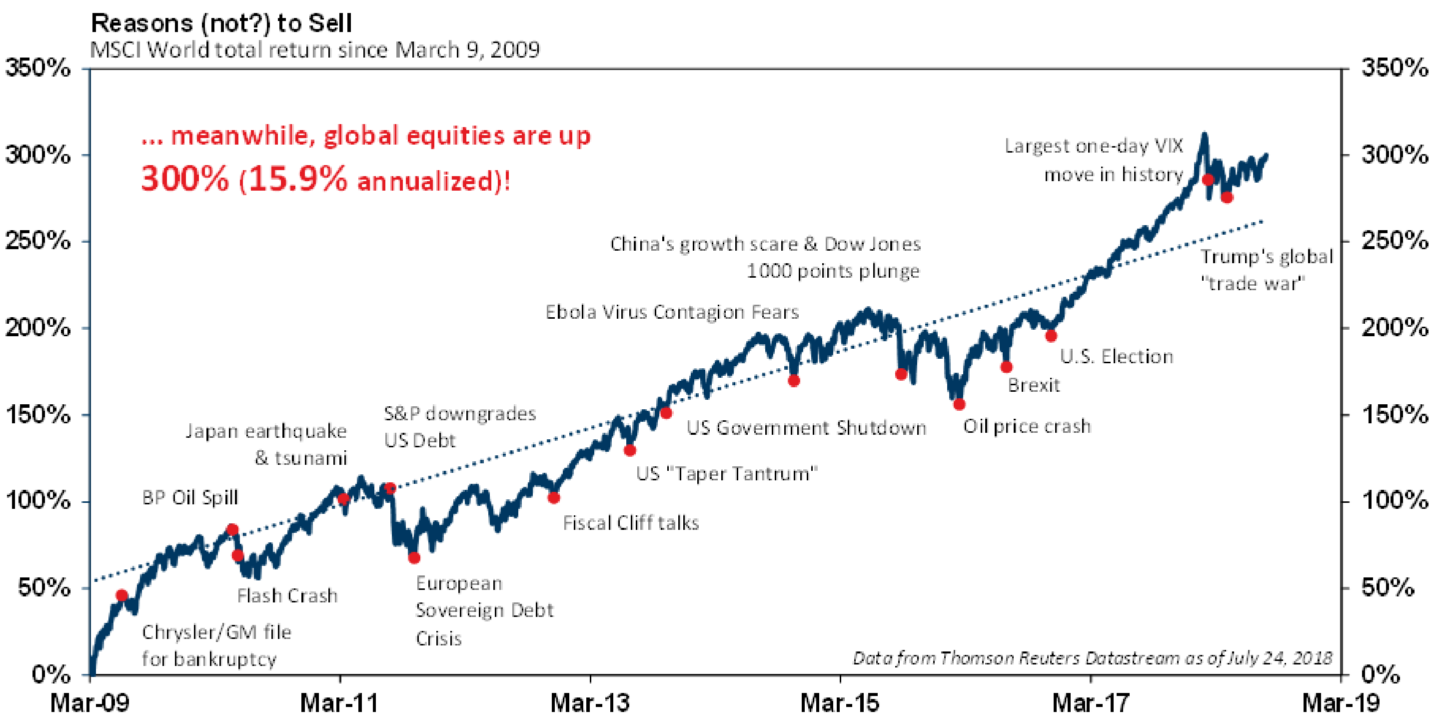
CAN Equity (CAD)	YE 2017	Wk-end	Chg this week	Chg in 2018
S&P/TSX Comp	16209	16420	0.2%	1.3%
S&P Total Return	54003	55624	0.2%	3.0%
S&P TSX 60	960	976	0.2%	1.7%
US Equity (USD)				
S&P 500	2674	2840	0.8%	6.2%
S&P Total Return	5213	5599	0.8%	7.4%
Nasdaq	6903	7812	1.0%	13.2%
Inter. Equity (USD)				
MSCI World	1586	1642	0.1%	3.5%
MSCI EAFE	2051	1982	-1.5%	-3.4%
MSCI Emerg. Mkts.	60879	58600	-1.4%	-3.7%
FTSE 100 (GBP)	7699	7659	-0.5%	-0.4%
DAX 30 (KR)	12918	12616	-1.9%	-2.3%
Commodities (USD)				
Gold	1303	1220	-0.4%	-6.4%
Oil (Crude Brent)	$66.61	$73.39	-1.9%	10.2%

How we see it: Focus remains on year-end ramp driven by EPS. With volatility back to the low, the S&P 500 (SPX) in close proximity to record highs, and choppy grind higher, there is much discussion about how long the current economic and market cycle can last. We believe the combination of a solid economic backdrop, historically high business and consumer confidence, and better-than-expected earnings growth continues to suggest there is a long way to go. There is no doubt the unpredictable news backdrop of a potential trade war with China and a rise back to 3% in the 10-year US Treasury yield can cause increased volatility, but the fundamental backdrop commands using it as an opportunity to add risk.

Core thesis suggests any pause in the upside should be considered opportunity. We expected the first half to show higher volatility coupled with periods of correction, as investors grappled with a tightening cycle and overly optimistic sentiment. We also anticipated a second half ramp to our 2018 SPX 3200 target in our favored sectors, driven by strong EPS, reset global expectations, and a demographic tailwind. We favor those areas exposed to a better trend in capital investment, since the best way to combat company level inflation is through increased productivity; Financials provide the money for spending, Industrials implement benefit from the improvements, and Information Technology is the brains behind it.

Chart of the Month: Managing your emotions as an investor

Here we see a chart of the global equity bull run that hopefully, we have all been participants of. The reason we are highlighting this is to review the short memories of the retail investor. The general trend over the period highlighted has been up (300%+ in fact), however there are periods where you aren't seeing this 15.9% annualized jump- like March 2014-March 2016- where global equities were relatively flat. However, staying invested, clipping your dividends (from a diversified portfolio!) and being ready to ride the run of December 2016 forward to January 2018 was an opportunity to capitalize on a synchronized lift in global equities- this is where outsized gains more than made up for a stagnant period. Now, the notes on the chart highlight some global actions which have fought back against the bull market, some rather significantly. These shouldn't be discounted, because recovery can be significant from most of them- so we could advise you on two paths, either you have confidence in the markets during these events and say "my portfolio is balanced and can weather this storm," or it becomes a buy opportunity. Either way, establishing a plan and proper portfolio means that both of these scenarios should be a possibility.



What we are reading:

- Made in Canada- a website dedicated to keeping it local
- King James opens a school in Akron, and it's not your normal education facility
- Life insurance as an asset class and tax.
- How America uses its land.
- **Crypto Corner:** Whether you like it or not, you should know more and can't ignore.
- Your Coins on the big board at CoinMarketCap
- Facebook hires Director of Engineering for Blockchain
- Breakout past $7K USD for Bitcoin

<u>Investment Advisory and Financial Planning</u>: **Estate Planning for the Cottage**

As we have moved through the bulk of summer, and days (unfortunately) are getting shorter, plans to wrap up a cottaging season are starting to develop. This has been a hot topic of late, as many boomers bought into markets that reflected “cottage” pricing, rather than “lake house” situations. While the appreciation has been a wonderful boon to the owners, the tax bill on that appreciation is going to be significant. While there are several strategies available for the transfer of a cottage to children, there can be significant pitfalls as well.

Fair Market Value (FMV): In many cases, the children don’t have the capital to buy the cottage outright. In an effort to help the child, and if the parents don’t need the money for retirement, they may try and sell it far below FMV- the $1 plan as it were. This is now problematic from a tax standpoint, and may result in double taxation. If John sells to his daughter Jane for $1, and the Adjusted Cost Base (ACB) is $500K, and the property actually carries a FMV of $1MM, then John still gets hit with a capital gain of $500k, a taxable gain of $250K, and tax bill of $133,825 (using Ontario’s top tax bracket at 53.53%) **See chart 1**. However, even though tax has been paid by John, the new declared cost base is $1, and Jane carries that trhough her lifetime. If she goes to sell in 20 years and receives $2MM, the entire $1,999,999 is now capital gain, $999,999.50 is taxable, and $535,300 goes to the taxman. **See Chart 2**

Calculation figures for capital gain	Values for Michael
FMV	$1,000,000
ACB	$ 500,000
Capital gain	$ 500,000
Taxable capital gain (50%)	$ 250,000
Capital gains tax payable (53.53%)*	$ 133,825

Calculation figures for capital gain	Values for Jennifer
FMV	$2,000,000
ACB	$1
Capital gain	$1,999,999
Taxable capital gain	$999,999.50
Capital gains tax payable (53.53%)*	$535,300

*Assumes that neither can use the principal residence exemption

Strategy 1: Gifting: John can gift the cottage to Jane. He will still be on the hook for the tax bill as described in **Chart 1**, however, Jane’s new ACB is $1MM, reducing her future liability in the above scenario (experiencing a capital appreciation of 100% in her lifetime)- by half.

Strategy 2: Capital Gains Reserve: Gifting is a better option for Jane, but John still needs to pay a sizable tax bill on his generosity.

Remainder of the strategy (due to size) is only in the e-mail. Please refer to, or ask for a copy if needed.

<u>How does Financial Planning make a difference for you?</u> Financial Planning is a tool that everyone needs to be using in their investment strategy. If you aren’t planning with a complete overview with your manager, you are leaving strategy to chance, with no strategy at all. Good ideas to grow your portfolio are always available, by adjusting risk and knowing your situation in all situations: retirement, home and business purchases/sales, children coming in to the world or sent to University, helping them buy a house/business all play a part. According to the Financial Planning Standards Council (FPSC), 81% of Canadians with comprehensive financial plans feel on track with their affairs versus 73% with limited and 44% with no planning. Click here for an introduction to Mike and take a look below for an example of how he makes a difference for clients. Click here for a full overview on our financial planning services

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