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From: Ermes Monaco
Sent: February-20-18 1:16 PM
To: Ermes Monaco
Subject: VALUED CLIENT MAIL LIST: Surfing The Market Waves

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ABOUT FINANCIAL WAVES AND CURRENTS

Source: Google Images

North American financial markets underwent a substantial change over the past several weeks but sudden market swings do not in themselves mean a new change in direction and are often short term volatility in response to current economic conditions rather than fundamental economic shifts.

A nautical analogy would be ***surface waves being blown by intermittent winds versus the stronger current driving the direction of the ocean running below the surface.*** In general, stock market declines of less than -10% in a short term cycle are described as pullbacks and declines of more than -10% as corrections. The major swing so far this year that occurred between January 4 and February 9 produced a decline of -8.4% in the TSX. For the technical analysts in the audience that was a movement in the closing TSX index from 16,412 to 15,034 (Thomson Reuters). However, the index recovered to 15,328 as of close February 13, or, approx. 1.9%.

Therefore, what we have undergone so far this year is a pullback that has extinguished some of the "frothy" positive momentum in the market that spilled over from 2017. This is allowing the market to re-set itself at lower price levels which, correspondingly, become attractive again for some investors to buy. These pullbacks are often described as pauses that refresh a bullish trend. Recognizing this, investors are looking for the clues that the pause is over.

Until then, the tendency is for the market to undergo continued up and down swings until such time an economically significant indicator signals direction. When this volatility is occurring, uncertainty arises as the investor feels a compulsion to sell or, alternatively, see the situation as an emerging buying opportunity. A look at some of the most recent economic indicators illustrates this situation:

Date	**U.S. Economic Event**	**Implication**	**Stock Market Impact**
January 18	U.S. Jobless Claims declines	More employed leading to higher consumer spending and inflation	Negative
February 14	CPI as expected	Affirms existing underlying level of inflation	Negative
February 14	Retail Sales declined	Contradicts higher consumer spending	Positive
February 28	GDP	Will provide support to moderate or building inflation	??

Source of event: Bloomberg Economic Calendar

At this time, economic numbers are trading back and forth and greater consolidation of indicators will be required to provide direction. While near term robust recovery is not evident, especially under the cloud of inflation and further central bank rate hikes, neither is a further correction. However, some significant upcoming events in 2018, including mid-term elections in the U.S. and continued healthy corporate earnings, might be enough to strengthen the underlying market current.

What's the takeaway?

- Recognize that markets don't go continuously straight up or down; interim movements from the prevailing norm are characteristic of larger trends.
- More significant changes in trends normally happen over time rather than by immediate shocks.
- It becomes important to identify and distinguish near term market events from longer range underlying trends. In this way the risk of reacting to short term conditions at the cost of undermining returns over the longer term can be avoided.
- Opportunities do exist in all conditions but require pre-emptive management re-positioning in order to mitigate or benefit from prevailing market uncertainties.
- It is important to practice prudent investment management proportionate to prevailing conditions. This may mean more defensive positioning during times of uncertainty. However, be also prepared to recognize opportunities as they re-emerge.

<table>
<tr><th>KEY ECONOMIC INDICATORS and BUSINESS SECTORS</th><th>COMMENTS</th></tr>
<tr><td>


Last 3 Years Source: Globeinvestorgold
</td><td>The Canadian dollar has weakened in response to weakened oil prices and current investor uncertainty.</td></tr>
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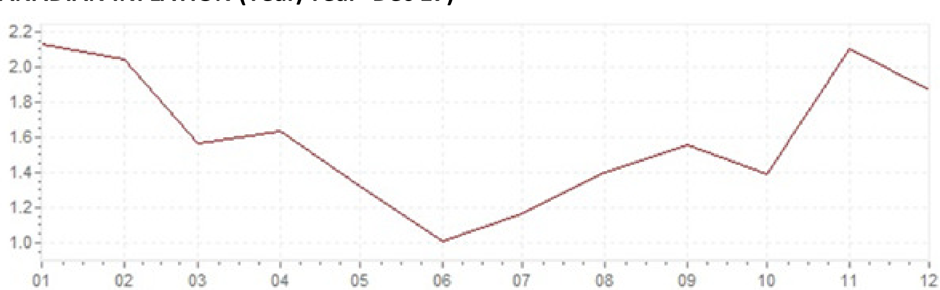
CANADIAN INFLATION (Year/Year- Dec 17)


Source: Inflation.eu
</td><td>Inflation has moderated in response to softening gas prices and general consumer caution being motivated by recent short term interest rate increases.</td></tr>
<tr><td>CANADIAN GDP Last 10 years</td><td></td></tr>
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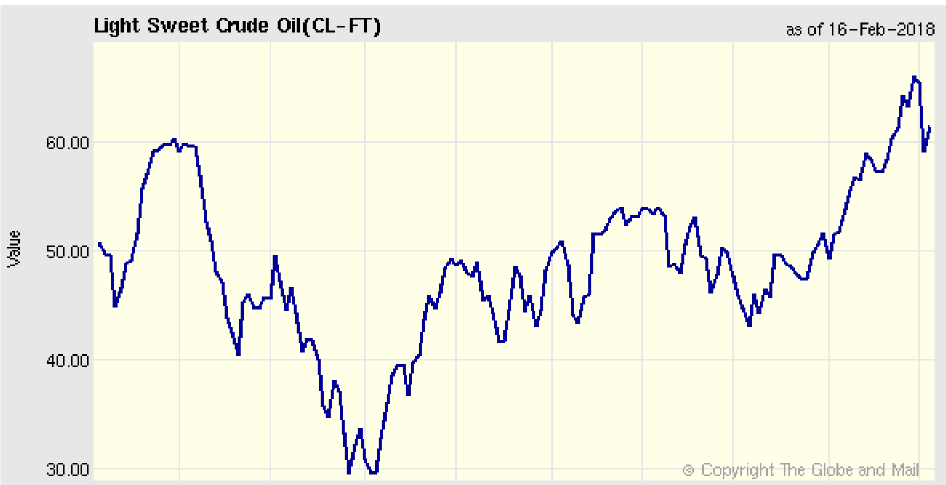
Canadian GDP has weakened recently following a robust 2017 performance. However, much of the slack in the economy has now been consumed and further organic growth will be necessary to sustain a GDP above 2%.

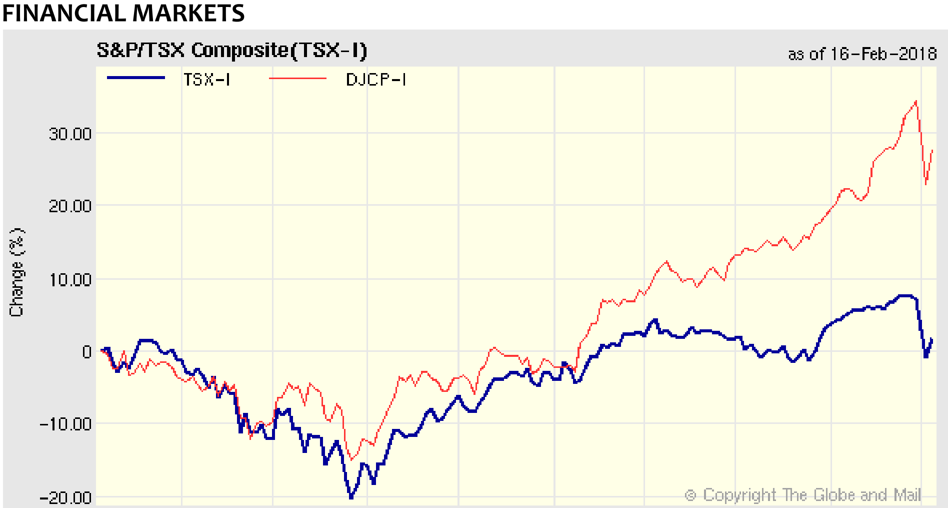
ENERGY



Last 3 Years **Source: Globeinvestorgold**

The price of crude has weakened partly in response to previous higher prices triggering increased production especially in the U.S.

FINANCIAL MARKETS

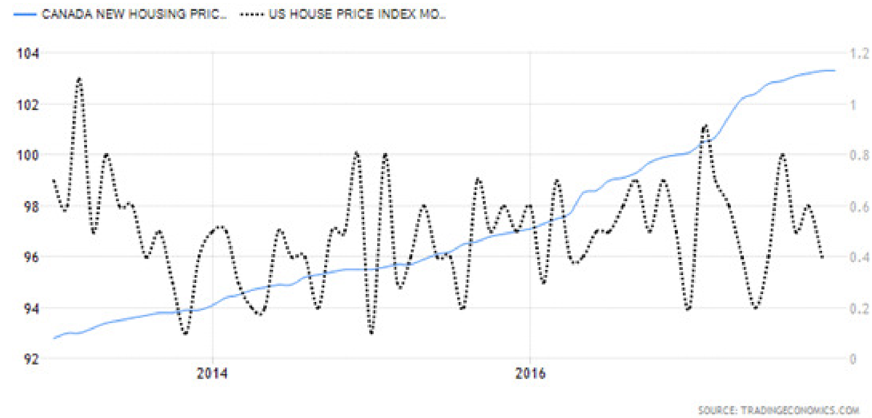


Last 3 Years **Source: Globeinvestorgold**

The current pullback has created a new price level following strong performance through 2017.

REAL ESTATE

Canadian vs U.S. Housing Index



Despite a moderation in Canadian housing prices following the latest government initiatives, the Canadian real estate sector continues to demonstrate critical value retention and stability versus the U.S.

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