

ODLUM BROWN REPORT

09 2018



ODLUM BROWN
Investing for Generations®

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Markets Rise Despite Trump and Trade Tensions

COMPOUND ANNUAL RETURNS¹ (Including reinvested dividends, as of August 15, 2018)

	YTD	1 YEAR	3 YEAR	5 YEAR	10 YEAR	20 YEAR	INCEPTION ²
Odlum Brown Model Portfolio	4.2%	12.4%	8.4%	14.1%	11.3%	13.9%	14.9%
S&P/TSX Total Return Index	1.4%	10.1%	7.3%	8.1%	5.2%	7.4%	8.5%
S&P 500 Total Return Index (\$CDN)	11.9%	20.1%	13.0%	19.1%	12.8%	6.2%	9.8%

¹ Except for YTD period. ² December 15, 1994.

After a volatile and disappointing start to the year, North American stocks rose steadily over the summer. From mid-April to mid-August, the major Canadian and U.S. equity benchmarks appreciated roughly 7% and 11%, respectively. The Odlum Brown Model Portfolio benefited from the rising tide and is up more than 12% from a year ago.

The longer-term returns have been extremely satisfying as well, with the Model yielding compound annual returns of 14.1% and 11.3%, respectively, over the past five and 10 years. Barring a correction in the near term, the 10-year return figure will improve even more as we cycle through the tenth anniversary of the 2008/09 Financial Crisis. Indeed, the post-crisis ride has been remarkable, as highlighted in the chart on page two, which compares the performance of the Model with the Canadian S&P/TSX Total Return Index and the U.S. S&P 500 Total Return Index (\$CDN).

With the global economy strong, corporate profit growth robust, inflationary pressures moderate and interest rates still relatively low, it's not surprising that investors are generally upbeat regarding the outlook for the economy and the stock market. It is human nature to extrapolate trends, and most of the time it's reasonable to do so; the past is normally a good predictor of the future. It's the turning points in the economy that can catch investors off guard, as investor sentiment tends to be too pessimistic during recessions and too optimistic late in the economic cycle.

It's our job to contemplate where we are in the economic cycle and to assess whether equity market risks are consistent with the potential rewards. It's easiest to be confidently optimistic during the depth of an economic recession, when corporate profits, investor sentiment and equity valuations are depressed. At that time, these elements have much more room to rise than to fall. The converse is also true late in the economic cycle, when the risk and return equation is not nearly as favourable and the odds of a setback in the economy, corporate profits, investor sentiment and valuation multiples are higher.

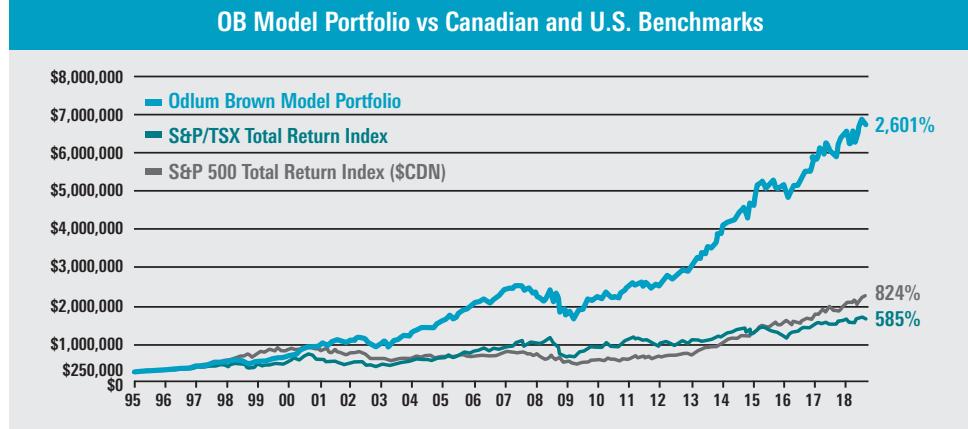
While there is no doubt that we are in the latter part of the economic cycle, with higher risks and lower prospective returns, we don't believe it's time to make any significant changes to portfolios. In fact, the goal is

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We already live in a growth-constrained world due to high levels of debt and slower-growing populations; social unrest and trade tensions merely reinforce the slow-growth reality. Our Model has been positioned accordingly for a long time. We are broadly diversified with a good balance of businesses with higher long-term growth potential, cyclical recovery prospects and defensive characteristics.

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never to make a dramatic, recession-driven call to significantly reduce stock market exposure, but rather to always assess whether our Model is focused on the stocks and sectors with the best risk and return characteristics. The key is to not get carried away with the crowd when sentiment gets unjustifiably euphoric, as was the case with technology and resource stocks in 1999 and 2008, respectively. At this juncture, we believe most stocks and sectors are reasonably and appropriately valued relative to each other and the economic outlook. Furthermore, the risk and reward equation for stocks remains favourable compared to alternative asset classes, in our opinion. The media headlines are full of things to worry about, but risks are ever-present at all points in the economic cycle, and we don't believe today's risks are extraordinary.

One risk that elicits the most questions is U.S. President Donald Trump's position on trade and whether a trade war could undermine the global economy and stock market. While we could certainly imagine the media citing Trump and trade should a stock market correction occur in the near term, we think the worries about trade tensions are overblown. Our reasoning is several-fold.

First, recent trade tariffs announced by the U.S., China and other countries are very small relative to the size of the global economy. Moreover, not all tariffs will be collected, as many companies will redirect trade through other countries to avoid payment. Tariffs that are paid are not a dead-weight loss either; they are merely taxes that will be collected and redistributed by governments.

Trump could certainly escalate the trade tensions, but it would take much bigger and broader tariffs, combined with commensurate retaliation from other countries, to make a meaningful dent in global trade. Also, it's quite possible that Trump's bark will prove bigger than his bite. Behaving like a bully is his signature negotiating tactic – act crazy at first, and win concessions while moderating later.

While increased protectionism will no doubt undermine global growth, the trade tensions to date are not significant enough to make us overly concerned. We already live in a growth-constrained world due to high levels of debt and slower-growing populations; social unrest and trade tensions merely reinforce the slow-growth reality. Our Model has been positioned accordingly for a long time. We are broadly diversified with a good balance of businesses with higher long-term growth potential, cyclical recovery prospects and defensive characteristics.

If trade tensions intensify, our U.S. holdings will likely do better than our Canadian positions, since the U.S. has less to lose in a trade war compared to countries like Canada. Consequently, our economy, dollar and stock market would be expected to suffer comparatively. On the other hand, Canadian stocks stand to outperform the U.S. if trade tensions moderate. Either way, we are well hedged with roughly a 50/50 split between Canadian and U.S. investments.

Enjoy the fall and try to ignore Trump's tweets.



MURRAY LEITH, CFA
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The Odulum Brown Model Portfolio is an all-equity portfolio that was established by the Odulum Brown Equity Research Department on December 15, 1994, with a hypothetical investment of \$250,000. It showcases how we believe individual security recommendations may be used within the context of a client portfolio. The Model also provides a basis with which to measure the quality of our advice and the effectiveness of our disciplined investment strategy. Trades are made using the closing price on the day a change is announced. Performance figures do not include any allowance for fees. Past performance is not indicative of future performance.

Long-Term Care Insurance

Recent media attention has been highlighting the costs and options for long-term care for our aging population. One option to consider to cover these expenses is the purchase of long-term care insurance. Individual long-term care insurance can offer certain advantages, such as:

- Additional financial resources for assistance and support, meaning more options for patient care and caregivers
- Less stress from financial pressures that can arise when expenses surpass income
- The retention of retirement or other financial assets that might otherwise need to be used toward funding long-term care costs

Long-term care insurance provides financial protection in the form of an income-style benefit. While policy wording and definitions may change slightly from plan to plan, benefits are generally payable if you become unable to care for yourself because of a cognitive impairment, which refers to the loss or deterioration of mental capacity similar to (and including) Alzheimer's disease, or because you are unable to manage two or more activities of daily living without substantial assistance. Activities of daily living are generally defined as bathing, dressing (including medical braces), feeding, toileting, transferring (moving into or out of bed, chair or wheelchair) and maintaining continence.

Insurance premiums vary depending on a number of factors, such as the type of plan chosen, the coverage amounts and duration of benefits, an individual's age at time of purchase and any optional features like cost of living increases or return of premium on death benefits. A barrier to entry for purchasing long-term care insurance can be an individual's health history or pre-existing medical conditions. Once diagnosed with health problems, coverage for most insurance products, including long-term care insurance, may not be available.

Sample Costs:

On the right are sample monthly premiums for individual comprehensive coverage (facility or non-facility care) with a weekly income benefit of \$750*. Benefits are payable after a 90-day waiting period for an unlimited period. The monthly premiums quoted are based on age at time of purchase and are payable for life. Premiums are not required when the insured is on a claim collecting benefits.

Age	Male	Female
55	\$177	\$256
60	\$244	\$345
65	\$361	\$501
70	\$605	\$873
75	\$940	\$1,392

If your overall financial and retirement plans would be interrupted or strained by additional medical costs or long-term care expenses, you may wish to review your options and purchase long-term care insurance. If you would like more information about long-term care insurance or any other insurance products offered through Odlum Brown Financial Services Limited, contact us through your Odlum Brown Investment Advisor or Portfolio Manager.



RITA AGER, CFP, CLU, CHS, CPC, FEA
Insurance Specialist
Odlum Brown Financial Services Limited

*Sample costs provided by Sun Life Financial as of August 1, 2018 and are subject to change.

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Odlum Brown in the Community

We are committed to supporting initiatives that are meaningful and beneficial to our communities. As our summer sponsorships come to a close, we are proud to be a part of the following events in the fall:



Ovarian Cancer Canada Walk of Hope September 9 Throughout BC

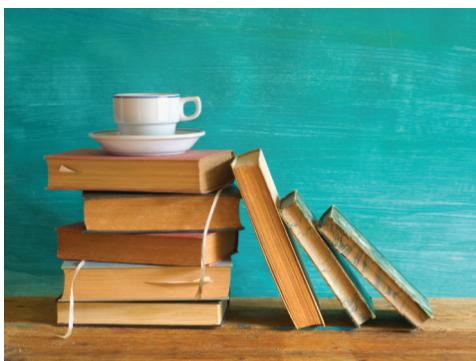
For the fifth consecutive year, Odlum Brown is proud to be the Provincial Sponsor of the Ovarian Cancer Canada Walk of Hope. The largest and most powerful event of its kind in the country, the

Walk of Hope raises vital funds to provide support, raise awareness and fund much-needed research into prevention, improved treatments and, ultimately, a cure for ovarian cancer. [For more information, visit ovariancanada.org.](http://ovariancanada.org)

Vancouver Public Library Foundation Gala September 27 Vancouver, BC

Odlum Brown is delighted to present the 2018 Vancouver Public Library Foundation's "Beyond the Book" Gala on September 27. The event supports library programming, the revitalization and planned expansion of the Children's Library and the development of a state-of-the-art teen space. We are proud to support life-long learning in the community and the Vancouver Public Library's efforts to make information and knowledge accessible for everyone.

[For more information, visit vplf.ca/2018-gala.](http://vplf.ca/2018-gala)



Check us out on Instagram!

Odlum Brown is proud to support the communities where we live and work, and we celebrate this through our social media networks. We have been active on Facebook and Twitter for a number of years, and are proud to now engage with our community through Instagram!

We encourage you to follow our accounts and the hashtag #OdlumBrown for a preview of our community sponsorships throughout the year.



[Odlum Brown Community](#)

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