THE ABC PERSPECTIVE

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Setting Up For 2019

"It was the best of times, it was the worst of times, it was the age of wisdom, it was the age of foolishness, it was the epoch of belief, it was the epoch of incredulity, it was the season of light, it was the season of darkness..."

A Tale of Two Cities
Charles Dickens

As we prepare our portfolios for 2019, we believe that we are presently experiencing the best of times. For instance, the American stock market has entered the longest bull market in U.S. history, U.S. consumer confidence has reached the highest levels since September 2000, a tentative new NAFTA deal has just been announced in the form of USMCA, and the U.S. 2017 Tax Cuts and Jobs Act which permanently lowered the American corporate tax rate from 35% to 21% has kicked in, producing 25% corporate earnings growth over the last year.

Nonetheless, there exists considerable investment, economic, and political angst overhanging the securities markets. This negativity relates to rising U.S. Federal Reserve administered interest rates, the divisive and polarizing Kavanaugh Supreme Court confirmation hearings and subsequent Senate vote, the pending November U.S. midterm elections, an unresolved U.K. Brexit situation, ongoing European political and financial problems, as well as lingering international trade and tariff issues. We believe that these perceived problems are transitory and will be resolved over time. Consequently, we are taking a long term positive investment stance for 2019 and remain fully invested.

While we anticipate considerable price volatility over the short term, we expect the positive stock market trends to continue into 2019. We believe that the U.S. economy is on firm footing, relatively high American interest rates will keep the U.S. dollar strong and in demand, and that the new low corporate taxation levels, rising business earnings, and contained wage and product inflation should enable the U.S. economy and equity investments to remain quite appealing to both foreign and domestic capital.

In setting up our portfolios for 2019 we are:

- retaining our country allocations of 2/3 U.S. and 1/3 Canada
- maintaining a 100% U.S. currency hedge for all five ABC Funds
- delaying any initial bond purchases in our balanced ABC Fully-Managed Fund for at least the next six months
- favouring four industry sectors including health care, U.S. and Canadian financial services, technology, and industrials
- focusing on individual equity positions in larger capitalization and dividend paying securities

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Economic Perspectives

The Attraction of Bank Stocks vs. Bonds

While Canadian bond rates have been steadily rising in 2018 they are still relatively low in relation to moderately strong economic growth and higher yielding bank dividend payouts. For instance, the Canadian two to 30-year bond yield curve offers returns of 2.30% - 2.55% in comparison to the relatively attractive bank dividend yields ranging from approximately 3.5% (TD Bank) to 4.5% (CIBC and Bank of Nova Scotia).

It is our view that Canadian bank shares provide not only good long-term capital and dividend growth but also represent an excellent proxy on an evolving Canadian economic and currency upturn. More importantly, we believe that Canadian bank shares offer a solid alternative to low yielding government bonds.

Investment Perspectives

The U.S. Economy: Surprisingly Strong

While skeptics continue to caution on the sustainability of this long-in-the-tooth U.S. economic cycle, business statistics continue to emit surprising strength. For example, American manufacturing and non-manufacturing activity remains strong, record low unemployment along with moderate payroll and wage increases and contained inflation have also helped to support economic longevity.

Nonetheless, although the extraordinarily strong +4.2% Q2 2018 U.S. economic performance should moderate toward a 3% annual growth rate, the recent USMCA tentative agreement should extend positive North American economic activity to at least the end of 2019.

Portfolio Perspectives

Portfolio Positioning

Over the past three months we have made relatively few security changes due to the fact that we are quite comfortable with our portfolio positioning. Although we anticipate gradually rising U.S. and Canadian interest rates we believe they will be relatively low in relation to the present level of North American economic activity.

Consequently, other than periodic stock price volatility it is our expectation that common stocks will sawtooth to higher levels. This view is mainly due to continued economic growth, the new lower American corporate taxation rates, rising company earnings, regular dividend increases, and extended corporate share buybacks.

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Two Favoured ABC Common Stock Holdings

Charlotte's Web Holdings: is the market leader in the production and distribution of CBD based wellness products derived from industrial hemp. CBD, or cannabidiol, is a non-psychoactive cannabis compound that has significant medicinal and therapeutic benefits. It is used in the treatment of many ailments and conditions, as well as for general wellness, pain management, and stress relief. Charlotte's Web gained worldwide recognition and consumer acceptance following the airing of a CNN documentary which followed Charlotte Figi, a 5 year old girl with a rare and debilitating form of epilepsy. Charlotte suffered from over 300 seizures a week and there were no medically available options that could treat her condition. CBD oil was a last resort option. It worked miraculously, virtually eliminating Charlotte's seizures and significantly improved her well-being. While the production and sale of CBD products is legal in the United States, it is classified as a Schedule I controlled substance. The 2018 U.S. Farm Bill, which is expected to be passed into law by President Trump by year end, includes provisions to deschedule CBD as a controlled substance. This should benefit Charlotte's Web as CBD should become more widely accepted by consumers and governments. Charlotte's Web's industry leading market position and trusted brand, strong financial position, and an experienced management team make it an attractive holding in three of our five ABC Funds.

Salesforce.com: is a developer of enterprise cloud computing solutions focused on customer relationship management. We are optimistic as this segment is one of the fastest growing areas in enterprise software, and Salesforce.com stands as the industry leader through its popular products Sales Cloud, Service Cloud, and Marketing Cloud. There is a long runway for growth, with the company projecting a total addressable market of $140 billion and forecasting yearly revenue growth of 20%. Artificial intelligence is expected to be a large growth driver, as companies strive to be more predictive, smarter, and personalized with their customers. Salesforce is placing AI and automation at the core of its platform through its advanced Einstein AI platform, which will enable customers to discover useful insights and predictions. We see a bright future for Salesforce as the company capitalizes on trends including mobile, social media, big data, artificial intelligence, and machine learning.

Administrative Information

- Clients that are invested in our closed-end funds are able to redeem their reinvested distribution units on a monthly basis. Also, you can participate in the annual 10% redemption right if you provide the completed form by November 30 for a December 31 transaction date. If you need assistance with either of these options, please do not hesitate to contact our office.

- We continue to request that clients assist in updating their "Know Your Client" forms. This information is a regulatory requirement to assess the suitability of our various ABC Funds to individual client's needs.

- RBCITS is the custodian of the ABC Funds and is responsible for providing our clients with account statements, tax slips and requested funds. We ask that you retain all statements for your records as there may be additional costs for retrieving historical data.

- Please contact our office to inform us of any changes in mailing or email addresses. If we do not have your current contact information, you may not receive the information we are sending out.

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