

THE BENEFITS OF PATIENCE

The U.S. and Canadian stock markets soared during the first three months of 2019. For instance, the S&P 500 index provided a 13.1% gain for this period, its best quarterly return in almost ten years and best start to the year since 1998. This performance is particularly notable given the stock market volatility during the last three months of 2018.

Looking back to Q4 2018, Federal Reserve Chair, Jerome Powell's hawkish monetary policy rhetoric, fears of a full blown U.S. - China trade war, and growing global political and economic confusion undermined investor sentiment and set the stage for the sudden market sell-off. We believe that these issues have been resolved over the past several months.

For example, the U.S. Federal Reserve has backed down on its previously hawkish stance and pivoted 180 degrees toward a very dovish monetary policy. We believe this shift reduces the odds of an economic recession in the foreseeable future and likely extends the current bull market.

Furthermore, while an official trade deal between the U.S. and China has not been announced, both sides are working toward a resolution to the long standing dispute. China has offered concessions to avoid escalation and Presidents Donald Trump and Xi Jinping have agreed to extend trade talks. We believe the climax of this conflict is behind us.

Despite the negativity surrounding financial markets entering 2019, the fourth quarter market weakness provided significant investment opportunities. Common stocks with strong fundamental prospects were trading at unusually low price to earnings ratios and offered attractive dividend yields of 3-5%. Maintaining our long-term optimistic strategy, we added to positions we believed were undervalued by the market and could provide significant capital appreciation.

As we enter the second quarter of 2019, the market continues to climb the proverbial "wall of worry". While, the U.S. economy has decelerated from 3% to 2% growth, the fundamental backdrop is still positive. The labour market and employment growth have continued to strengthen and inflationary pressures remain muted. Given this favourable setting and relatively high common stock dividend yields compared to lower treasury bill and bond yields, we continue to be optimistic and patient.

A handwritten signature in black ink that reads "Tom." with a period at the end.



ABC Funds

INVEST YOUR MONEY
WHERE WE INVEST OURS

TM

Economic

Perspectives

THE U.S. ECONOMY: STILL GROWING

Contrary to the extreme investor negativity during the last quarter of 2018, the American economy continues to expand. In fact, U.S. economic activity appears to have stabilized, with business and consumer data suggesting growth could strengthen over the coming months. This improvement is mostly due to the recent decline of U.S. interest rates, which should stimulate business activity and

spur capital investment. Furthermore, strong corporate earnings and forward guidance, continued employment growth, and low inflation, are positive indications of a renewed economic pick-up.

Investment

Perspectives

COMMON STOCKS: AN ATTRACTIVE ASSET CLASS

Although North American equities have rebounded significantly since the lows of late December 2018, we believe that common stocks still offer excellent relative value compared to lower yielding fixed income securities.

Furthermore, with sustained business activity, positive earnings growth, and rising dividends, we believe that larger capitalization U.S. and Canadian common stocks represent

an attractive asset class during this extended investment cycle. More importantly, with a growing economy, low interest rates, and greater business optimism, we believe the resurgence of increasing merger and acquisition activity could provide a further lift to equity prices.

Portfolio

Perspectives

VERY COMFORTABLE WITH OUR PORTFOLIOS

With regard to our ABC Funds' portfolios, we are well positioned and are very comfortable with our individual securities. The portfolios are composed of mid to large capitalization, dividend paying securities, with excellent earnings and growth prospects. We remain well-diversified among a number of key sectors, including: Information

Technology, Consumer Discretionary, Financial Services, Industrials, and Health Care. Additionally, we have retained our geographic allocations of 2/3 U.S. and 1/3 Canada and continue to maintain our 100% U.S. currency hedge to avoid unnecessary currency volatility.



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TWO FAVOURED ABC COMMON STOCK HOLDINGS

Canadian National Railway Co.: is a crucial component of the North American economy, with over 30,000 km of railways that connects three coasts and transports more than \$250 billion of goods per year on its network. CN Rail's business possesses structural advantages that make it a very attractive investment. Its rail network is essentially impossible to replace, possessing vital right-of-ways and tracks laid on land that was acquired very cheaply a century ago. Additionally, rail is the cheapest and quickest method of shipping large loads over long land distances. With very little competition, CN Rail has strong pricing power. CN Rail's large network gives it superior scale, with 65% of traffic originating and terminating on CN's network. With a solid economy, the company is seeing strong volume growth and is continuing to invest in infrastructure. CN Rail is also making large investments in technology that will lower costs and improve safety and efficiency. Finally, the company's strategy is allowing it to grow faster than the economy to produce large free cash flows, dividend growth, and share buybacks.

Waste Management Inc.: is a provider of waste management environmental services to residential, commercial, and industrial customers across North America. This includes collection and transportation services, processing and recycling, as well as the ownership and operation of waste landfills. We view the company as an excellent investment given its attractive forward EV/EBITDA of 12.0x, a lucrative free cash flow, and a 1.8% dividend yield. More importantly, Waste Management is a leader in the solid waste services industry and is uniquely positioned with a strong economic moat, providing considerable barriers of entry to new industry competition. The company's \$4.9 billion cash purchase of Advanced Disposal, which should be immediately accretive to earnings and offer \$100 million of synergies, proves management is focused on growing its footprint and gaining market share. We believe further opportunistic acquisitions could continue, which should sustain WM's industry dominance into the next decade.

Administrative Information

- There are units of the ABC North American Equity Fund & ABC Global Equity Fund available for purchase. Contact our office for more information.
- Purchase requests must reach our office by the last business day of the month and redemption requests (for our open funds) must reach our office no later than ten business days before the last business day of the month.
- Clients that are invested in our close-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 call our office.
- All cheques are to be made payable to RBC Investor Services.
- All client requests are to be directed to ABC Funds.
- 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 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.

This newsletter is published by **I.A. Michael Investment Counsel Ltd. and the ABC Funds**

18 King Street East, Suite 1010 Toronto, Ontario M5C 1C4 Telephone: (416)365-9696 Toll Free: 1-888-OPEN ABC Fax: (416)365-9705
Web site: www.abcfunds.com Email: invest@abcfunds.com

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