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Welcome Aboard

Quirion Financial Services is pleased to introduce Julia Bragnalo.

During this hectic Income Tax period, you may have received a phone call from our newest Team Member. As a new assistant, Julia will be working closely with Roger and the rest of the Quirion Financial Services team.

Email: Julia.bragnalo@manulifesecurities.ca

e-Courier – Secure Email and File Transfer Service

In our effort to be conscious of security and confidentiality risks associated with emails we have been utilizing e-Courier to send you secure attachments such as paperwork, reports or income tax returns. You can also use your account with e-Courier to send attachments back to the team and maintain the security level. If you have any questions on this process, please give us a call.

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For additional information give us a call or review the information on our website.

Market Commentary

Should you have any questions about your investment portfolio we are here to help.

Please do not hesitate to contact us.

“This is what corrections are supposed to do, shake investors’ confidence and reset equity markets back to reality”

Challenges in the quarter

Wow! Volatility returned with a vengeance. After experiencing market pullbacks of less than five percent in 2017, we’ve already experienced two pullbacks of greater than five percent in 2018. This is still normal market activity considering 2017 and 1995 were the only two years in the past thirty without a pullback of greater than five percent. The increase in volatility was due to fears of a global trade war. However, the fundamentals of the global economy remain strong and over the long term the capital markets will shift their focus to fundamentals and company earnings.

Canada

The S&P/TSX underperformed in the first quarter, falling nearly five percent on a broad-based sell off across most of the market. The S&P/TSX was dragged lower by concerns of a further weakening Canadian economy due to increases in interest rates, stricter mortgage lending rules, and increases in minimum wages across many provinces. Notably, the weaker Canadian dollar in the first quarter helped prop up global equity returns for Canadian clients.

The United States

There’s no doubt equity investors were reacting to the fear of a global trade war in the first quarter. The fear of a potential trade war between the U.S. and China, or other countries, drove selling pressure that resulted in the S&P 500 falling 1.2 percent in U.S. dollar terms. Looking at the numbers, the selling pressure may have been an overreaction. Bi-lateral trade between China and the United States amounts to low single-digit percentages of each country’s GDP. The tariffs would amount to a fraction of a fraction. Not to suggest the potential for a trade war is trivial but the magnitude of the reaction may have been greater than warranted.

Overseas

In overseas markets, international equities rose 0.51 percent in Canadian dollar terms as measured by the MSCI EAFE Index. Setting aside the potential of trade wars, Europe and Asia’s economic outlook continues to be very robust and this will likely flow through company earnings. With accommodative interest rate policies, this part of the world will likely result in strong market returns.

Central Bank Policy

In the first quarter, the U.S. Federal Reserve saw a change in leadership with Jerome Powell taking over the helm from Janet Yellen. Jerome Powell continued Yellen’s rate hike policy in the first quarter by increasing the overnight rate once by an increment of 0.25 percent to 1.75 percent. The U.S. Federal Reserve is expected to continue to raise its benchmark rate another two or three times by the end of the year.

The Bank of Canada continued its interest rate increases from last year by increasing overnight rates by 0.25 percent to 1.25 percent. It’s expected rates will increase very gradually with one more increase this year.

Looking forward

Recent market volatility driven primarily on trade war rhetoric will subside as cooler heads prevail when it becomes evident there are no clear winners—only clear losers. Market returns are expected to be driven by fundamentals and interest rate policy. Fundamentals continue to be strong, likely resulting in higher interest rates. In this environment, equity markets will likely be positive but may not experience the above average returns we’ve seen in the past couple of years.

In the meantime, we remain focused on helping you create an investment portfolio that is best suited to your long-term goals and outlook, based on your unique circumstances and risk tolerance. Should you have any questions about your investments, please do not hesitate to contact the office.

THE GREENING OF CANADIAN EQUITY MARKETS

Over the past year, Canadian marijuana stocks have garnered capital markets' interest in bubble-like fashion. Health care was the strongest performing sector in the BMO Small Cap benchmark last quarter, let by cannabis stocks roaring to new heights. The four largest marijuana stocks in Canada have had extreme rallies since the start of September, anywhere from 240-400%.

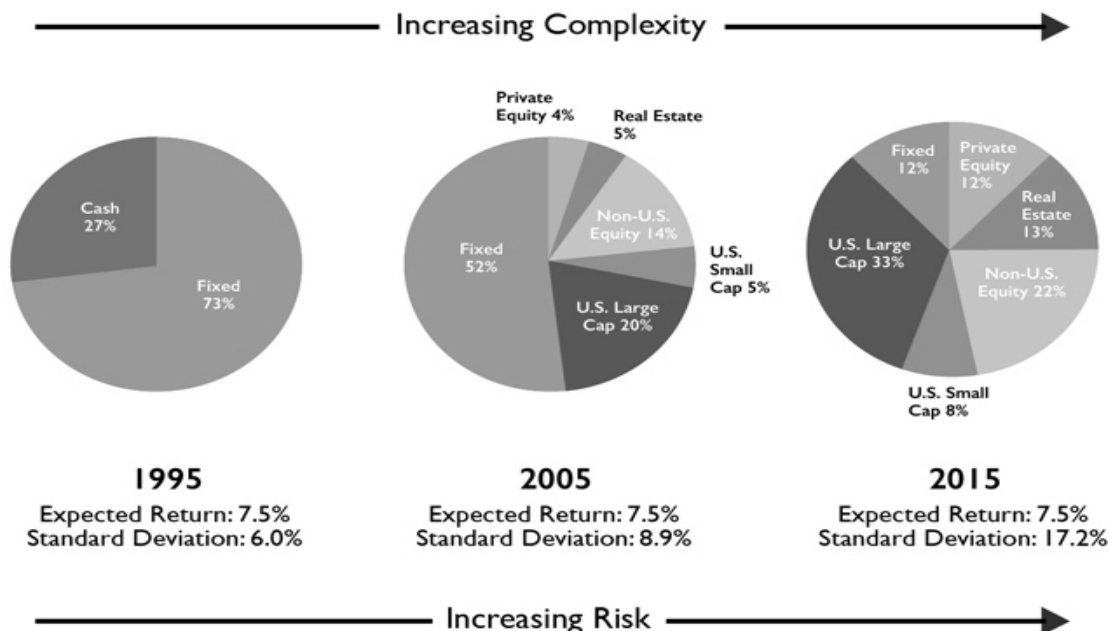
From what our partners can tell, the current buying frenzy in marijuana stocks has little to do with fundamentals. The majorities of businesses have limited financial records and are burning large amounts of cash. Legalization for recreational use is targeted for July 1, but the provinces have yet to formulate rules around pricing and distribution. We simply do not know the definitive regulations that will govern the industry, have confidence in how the market will evolve, or which businesses, if any, will have enduring competitive traits. On top of all of this, the rampant interest in marijuana stocks has made the cost of entry extremely expensive.

Take four of the largest marijuana stocks traded on the TSX for example. They now have an aggregate market cap exceeding C\$18 billion, which is not far from the market cap of Molson Coors at US\$17.9 billion. Molson Coors has the largest share of Canada's brewing market and generated approximately \$13.4 billion in revenue over the past twelve months. This compares to only \$148 million in revenue from the four marijuana businesses combined.

Are the marijuana businesses worth more than Molson Coors? For the answer to be yes, the marijuana market will also need to grow to a size comparable to the Canadian beer market. It's not impossible, but the odds are very low. When capital is thrown at an industry in an increasingly indiscriminate fashion, the long-term returns on investment rapidly diminish.

Question: Reduce Return or Increase Risk. The Low Risk Investors Dilemma

The below chart shows the required allocation investors needed to earn 7.5% from 1995 to 2015.



Roger Quirion, Senior Financial Advisor
Quirion Financial Services
Manulife Securities Incorporated
100-1085 Carrick St
Thunder Bay ON P7B 6L9

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www.qfs.ca

Phone 807-622-3700
800-785-2877
Fax 807-622-5001

Strategies for Dealing with Difficult Markets:

1. Take a Long-Term View. Market volatility is not unusual; however, it can be unsettling. It's important to remember that market declines have been followed by recoveries.
2. Be diversified. Each asset class performs differently as market and economic conditions change. There is no way to predict which one will be the leader.
3. Resist the temptation of Market timing. The ideal strategy for an investor is to sell out of the market before it declines and reinvest just as it begins to recover. There's an old Wall Street saying: "Nobody rings a bell at the top of the market and nobody rings one at the bottom."
4. Take advantage of market volatility. Words by Warren Buffet, "Be fearful when others are greedy and be greedy when others are fearful."

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