

## Canada at 150 - House Divided

### A. Canada - House Divided

On June 16, 1858 more than 1,000 delegates met in the Springfield, Illinois, statehouse for the Republican State Convention. At around 5:00 pm Abraham Lincoln was selected as their candidate for the U.S. Senate, running against Democrat Stephen A. Douglas. A couple of hours later Lincoln delivered his now famous “House Divided Speech” to his Republican colleagues in the Hall of Representatives. The title reflects part of the speech's introduction, "A house divided against itself cannot stand," a powerful statement familiar to Lincoln's audience, made by Jesus, and recorded in all three synoptic gospels, Matthew, Mark and Luke.

At the time, many of Lincoln's friends regarded the speech as too extreme for the occasion. His law partner, William H. Herndon, respected the moral courage of Lincoln but was very concerned that his speech was politically incorrect! A response we are all too familiar with today! Lincoln in discussing his speech referred to the "house divided" language this way: "The proposition is indisputably true ... and I will deliver it as written. I want to use some universally known figure, expressed in simple language as universally known, that it may strike home to the minds of men in order to rouse them to the peril of the times."

Reflecting on the speech several years later, Herndon noted that Lincoln's speech did awaken citizens and later in his political career was instrumental in propelling him to the Presidency. "Through logic inductively seen," he said, "Lincoln as a statesman, and political philosopher, announced an eternal truth -- not only as broad as America, but covers the world." Lincoln knew that his beloved country could not advance if it remained permanently divided, with half slave and half free. The people had to choose one or the other. A divided the nation would not stand, but be torn apart.

It is interesting to look at the Biblical texts from which Lincoln derived this eternal truth! As noted above there are actually three accounts in the Gospels in which Jesus states that a kingdom divided against itself cannot stand. The references are found in Matthew 12:25, Mark 3:24 and Luke 11:17. In all three instances, this statement is spoken in response to the religious elite's blasphemous accusation, that Jesus was casting out demons, by the power of Satan! Jesus' argument to the religious leaders was very logical: a kingdom that is at cross-purposes with itself will fall. Any household filled with infighting will be torn apart. Since Jesus was obviously casting out demons, how could he be in league with Satan who is the leader of demons? The reality was that Jesus stood in opposition to Satan and proved it by freeing people of demonic possession and thereby opposing Satan.

By stating that a house divided cannot stand, Jesus is illustrating the verity that success relies on congruency and the need to build on common underlying principles, especially on truth. This is something we are familiar with and witness every day. Whether it is a piece of equipment or technology, a sports team, political party, family, corporation or your own mind, everything has to function together and build on consistent principles if anything successful is to be accomplished. In all intellectual pursuits the Bible reminds us that, “a

double-minded man is unstable in all his ways” (James 1:8). Christians are exhorted in the Bible to minimize quarrelling and to be unified around a common understanding of truth. “How good and pleasant it is when God’s people live together in unity!” (Psalm 133:1).

The Biblical God commands unity among His people because once conflict enters the midst of any assembly or entity, productivity and usefulness inevitably grind to a halt and the whole organization is weakened and becomes vulnerable to attack. “Any kingdom divided against itself will be ruined, and a house divided against itself cannot stand.” Lincoln understood the power of this eternal truth!

As we reflect on the state of Canada today, having just celebrated our 150<sup>th</sup> anniversary as a country, one cannot help but think about the deep divisions in our country. Over the past 150 years there have been significant changes to our country. The country I was born into even 55 years ago, is not the same today when it comes to its foundational principles. Many commentators have pointed out the significant economic changes in our country over the past 150 years, which on their own are interesting to note. Far fewer talk about the massive religious/faith shifts that have taken place in Canada over the past 150 years which have completely reshaped our country and its core institutions and will continue to influence our country in the years ahead.

The major change in Canada over the past 150 years is the massive shift from a country dominated by a Christian worldview to a country that is thoroughly secular in its core institutions, while inhabited by citizens that claim a growing diversity of religious views or faiths! While it is not my purpose in an investment update to outline in detail the implications of this shift, I will sketch out a couple of salient points that the reader should at least consider; even if you disagree! The primary point is that while we continue to fracture as a nation into greater and greater diversity, when it comes to our core beliefs/faiths and fundamental principles, the nation of Canada will not become stronger, but will inevitably weaken - socially, politically and economically. To any observant individual this trend is already apparent. It is also important to note that Canada is not alone in this fracturing of principles and core beliefs. One only need look to the United States and to what was formerly known as Western Europe to see nations facing a similar epistemological and moral crisis. Our “Western” societies and cultures are in massive decline.

Here are a few statistics that you might find interesting. In 1871 (four years after Canadian Confederation), a national census of Canadians revealed 56.25% as Protestants, 43% as Roman Catholic, 0.05% as Pagans, 0.03% as Jewish, 0.02% as Mormons, 0.15% as irreligious and 0.5% as unspecified. More importantly, all the major institutions of the country, including the education system, the form and structure of government (based on the British Parliamentary System), the legal system (primarily British common law) including property law, family law, hospitals etc. were strongly rooted in a Christian understanding of the world. At the time of Confederation on a Sunday morning (which was legally referred to as “The Lord’s Day”) over 70% of the population in Ontario was regularly found in a Christian house of worship. This does not mean that 150 years ago the majority of the people living in Canada were strong and consistently practicing Christians. It does mean that the vast majority operated from the worldview heavily influenced by Christianity. This unified the vast majority of citizens and provided a framework upon which to build a strong consensus on core issues. It is only in the last three decades that we scrapped the Lord’s Prayer from our schools, that we ended the Lord’s Day prohibition



of shopping, Toronto has gone from “Toronto the good” to “Toronto the same as every other city”, and Dominion Day (a reference taken from Psalm 72:8) was replaced by Canada Day as the official celebration for our national birthday. Despite our universities today being secular wastelands (I am being generous), for the first 100 years of Canada’s existence it was Christians that founded the majority of Universities in Canada. This is also true of our major hospitals and charitable organizations, including the YMCA, which stands for Young Men’s Christian Association. Obviously I could go on and on and on!

Today when I look at our country the “faith” or religion most attacked and denigrated is Christianity. The founding principles of our country are despised by the so-called Laurentian elite and are under siege throughout our country. This reality is seen not only in Canada, but also around the world where more than 100,000 Christians each year are murdered simply because they are Christians. This increasing holocaust receives virtually no interest from the press or global organizations such as the United Nations. Quite the contrary every month that passes brings increasing attacks on Christians worldwide.

Back to Canada! How easy is it to share and promulgate the fundamental principles of our founding generations and participate in national politics today? The sad and shocking reality is to be a Christian in two of our three official national political parties (NDP & Liberal) would require you to bury your faith and support policies diametrically opposed to Christian teaching! In other words, there is a shrinking acceptance of religious freedom when it comes to Christianity. The principles once held dear in Canada and made alive through our core institutions have largely been extinguished.

Are we really a united country? Is our strength really to be found in our diversity and in our differences? Can a country that has no broad agreement amongst its people on the three most important areas of life and thought; metaphysics (what is ultimate reality), epistemology (our theory of knowledge and what is truth) and ethics (how we are to live and govern human relations), stand united and strong and face the future as free citizens with hope?

On June 27, 2017, known as Multiculturalism Day, our Prime Minister Justin Trudeau made the following statement: “Today, Canadians from coast to coast to coast join together to celebrate the multiculturalism and openness that make us who we are as a country. Canadians come from every corner of the world, speak two official languages and hundreds more, practice many faiths, and represent many cultures. Multiculturalism is at the heart of Canada’s heritage and identity - and as Canadians, we recognize that our differences make us strong. Canada’s strong tradition of multiculturalism has allowed our society to benefit from fresh perspectives and find new answers to old problems. It has also helped Canada attract some of the most innovative and entrepreneurial people from around the world, showing that openness is the engine of both creativity and prosperity. This year, we mark both the 150th anniversary of Confederation and the 35th anniversary of the Canadian Charter of Rights and Freedoms. These milestones remind us of the values that unite us - **openness, inclusion, and deep respect for our differences**. Whoever we are, wherever we come from, these values bring us together as equal members of this great country.”

Diversity when we speak of gifts and abilities, is wonderful and a true blessing from God to any institution or country. Of course we want people with varied experiences, intellectual skills and even people from various backgrounds and cultures providing they share core

principles upon which unity can be built. Ideas such as “openness” and “inclusion” and a “deep respect for differences” sound wonderful on paper, but how do they work out in every day life? How can Canadians today, who are committed to completely contradictory worldviews, form laws together, decide what is right and wrong and increasingly draw lines limiting some activities while allowing others? Let me ask a few questions that highlight these differences.

1. What is ultimate reality? Is ultimate reality personal or non-personal? Is ultimate reality merely energy plus matter as the evolutionist purports and the State sponsored academic institutions preach? How we answer this question impacts our view in every area of life, including the basic questions such as; what is truth, does truth even exist, what is the basis of truth, what is right, what is wrong and what gives meaning, value and purpose to the universe and all that is in it? What are human rights? Where do human rights come from in a materialist chance world or in a non-personal universe?
2. What forms the basis for our theory of knowledge? Is it pure empirical science? Is it social science where we pretend to create our own reality despite the empirical evidence of science (ie. witness the latest confusion surrounding genders)? Is our theory of knowledge based on the Koran (Islamic Book), the Vedas (Hinduism), the Tripitaka (Buddhism) or the Torah, Midrash and Talmud (Judaism)? For Christians our base of knowledge is found in the Holy Bible that was revealed by the personal-Infinite God. The problem is that each of these different faiths, from State sponsored secular humanism (which is a faith) through to Christianity, when all thrown together, cannot develop a true consensus on any fundamental issue! If that is the case, how can one govern a country without a dominant view or faith? Which faith will dominate? In the confusion of “faiths” will the State not try to grow its influence, which will simply lead to a new totalitarianism? Can freedom exist without form? But whose form? Throwing all faiths into one pot and expecting peace, love and harmony is sheer ignorance of reality. It is a recipe for total totalitarianism as the State ultimately becomes god and hence the final authority. Is this not what we see developing in Canada today? The State tells us what we can believe about a host of moral and ethical issues. If we do not comply we are sanctioned or targeted! Talk to Liberal Members of Parliament who oppose abortion and find out how much freedom they have to express their opinions and those of their constituents, without attacks from the same leader who preaches tolerance, inclusion and love for diversity! It is a total sham.
3. How are we to live? How will ethics and human practices be decided in a country filled with such diverse views when it comes to origin, and completely different views of deity? How can a country develop a consensus on what is actually good and evil when they are filled with such contradictory worldviews? Just take a moment to consider the most important institution in society, the family unit. In Canada today we cannot even answer the question, “what is a family?” in a coherent manner. Today the answer to this question when looked at across the various “faith” communities is so varied that to maintain a civil society while accommodating all the views is virtually impossible! Is polygamy allowed, are there limits, if so, how and why is this line drawn where it is? What about child marriages, which are accepted across a number of “faith” communities? What about the moral acceptance of incest, pedophilia, honour killings, infanticide,

abortion, euthanasia, female circumcision, and the list goes on and on and on! Do we maintain British common law (French civil law in Quebec), or incorporate Sharia law to accommodate the growing number of Canadians that are Muslim? You do not have to be a lawyer to realize that Sharia law and Western law are incompatible. A country cannot run a unified civil society with both.

The dominant worldview in Canada today (intellectually) believes that the final reality is only material or energy shaped by pure chance! This view inevitably brings forth the sorrows of moral relativity and all the other social ills that are so represented in our country at this moment in history. Adding the “religions of the world” to this view does nothing to solve our challenges it only makes the issues more complex. I am completely dumbfounded as I listen to those who celebrate the existence of so many “faiths” in Canada and tell Canadians how wonderful it is to be filled with so many diverse faiths. What good is a faith that is not true? How can all faiths be true when they are utterly incompatible and claim things that are patently false and at odds with other faiths? Is this not delusion? Are delusional ideas and false principles ones upon which we can build a strong country?

Canada was to a large degree founded by individuals who believed that a personal God created and now sustains the whole universe. It is He that gives rights and freedoms to humankind and it is He who has provided the form and laws by which we are to govern ourselves, and these are found in the Christian Scriptures. Obviously many Canadians no longer believe this or care about this teaching. But they need to note that if the State gives the rights and arbitrarily sets the laws they can take them away just as fast! If the states give the rights, they cannot only change them they can manipulate them for their purposes. Unfortunately this is Canada today, where the unborn have no rights and the elderly, women, parents and many faith communities have far fewer rights.

We as Canadians take our past rights and freedoms for granted but we should not, especially when they are being taken from us by an ever more powerful and encroaching State. The freedoms that we have known historically, throughout northern Europe and Great Britain following the Christian Reformation, and in the United States and by extension in Australia, Canada and New Zealand are absolutely unique in the world. The path Canada embarked on many years ago has left our “house divided” and a house divided against itself cannot stand. Pray for the country we love! May each of us work to unite our country around Truth, in an age of utter confusion and falsehood! May each of us know the one who tells us clearly “I am the Way the Truth and the Life”, and let us shine His light into the increasing darkness.

## **B. Market Update - Second Quarter Review**

Global equity markets rose during the first half of 2017. The MSCI All Country World Index (ACWI) generated a total return of approximately 4% during the second quarter of 2017, bringing its year-to-date return to 11%. The S&P 500 Index generated a healthy total return of over 3% for the second quarter and 8% year-to-date. The S&P 500 has outperformed most global indices over the past four years. The Canadian stock market, year to date and over the past 1, 3, 5 and ten years, has been one of the lowest performing stock markets in the

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industrial world. During the first six months of the year the index is basically flat and has only compounded at 3% per year over the past three years.

Despite strong performance in many of the world's stock markets, investor sentiment is cautious. This caution emanates from a backdrop of political uncertainty, record levels of debt around the world and central banks that are slowly attempting to increase interest rates. Our focus as long-term investors is more attuned to the businesses we own, and it is important to note that overall equity markets generally align with economic fundamentals. Fortunately the fundamentals of most businesses have been quite strong and the companies we are invested in continue to perform very well.

In the US, post-election returns, for some stocks are based on their beneficial exposure to the proposed U.S. infrastructure spending and/or tax reform, which has not yet materialized. Time will tell whether the new Trump administration will be able to pass the legislation it wants and “drain the swamp”, but regardless, the new government has proven to be more favourable for business, and the markets have priced this change in attitude into stock prices.

During the most recent Federal Reserve (Fed) meeting in mid-June, Chairwoman Janet Yellen reaffirmed that the Fed remains inclined toward more interest rate hikes. This is our biggest concern. We think the Fed has just about exhausted its ability to raise rates without hurting the economy and equity markets. As growth and inflation data continue to come in below expectations, we think the current Fed stance could weaken, and their focus on raising rates might dissipate quickly (as it has done several times in recent years). If we are correct, it will support current or even higher equity market multiples. Any volatility as the Fed attempts to “normalize rates” will be used to your advantage and we will buy the securities we like for the long-term at better prices. Today's economic imbalances remain quite large and we need to remain vigilant in our stock selection and asset allocation.

Market action during the first quarter and during last 12 months is captured in the following table.

	June 30, 2016	Dec. 31, 2016	June 30, 2017	6 Month	1 Year Return
CAD/USD	\$.7742	\$0.7448	\$0.7713	+3.56 %	-.37 %
Oil WTI (US \$)	\$48.33	\$53.72	\$46.04	-14.3 %	-4.74 %
Gold (US \$)	\$1,322.00	\$1,150.90	\$1,241.42	+7.87 %	-6.10 %
Silver (US \$)	\$18.71	\$16.43	\$ 16.59	+.97 %	-11.33 %
S&P/TSX	14065	15,288	15,182	-.69%	+7.94 %
S&P 500	2,099	2,239	2,423	+5.54 %	+14.71 %
Cdn 10 yr	1.06%	1.72%	1.75	+ 3bps	+69 bps
US 10 yr	1.47%	2.45%	2.31	-14 bps	+84 bps

There are three items of particular note from the foregoing table. First, the recent strength in the Canadian dollar in comparison to the US dollar, second the general weakness in commodities, including oil (energy) and precious metals, and thirdly, the significant rise in interest rates over the past 12 months. It is instructive to point out that the global bond Index was up only .8% over past 6 months, but is down 3.0% over the past year, and down by .4% per year over the past two years. The lower bond prices simply



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reflect the rising tide of interest rates, as key central banks around the world attempt to move rates up, and off historical lows! What does this mean for our investors? Use the higher Canadian dollar to buy more global assets, only invest in commodities selectively, and don't buy long-term bonds that are vulnerable to increasing rates!

### C. ROCKLINC Investment Update

In terms of our ROCKLINC portfolios, in aggregate, across all our accounts, they were up 1.3% during the second quarter of 2017 and up 4.5% and 6.8% year to date and during the last 12 months (period ending June 30, 2017). Our average annual compound rate of growth over the past 3 years is clocking in at approximately 7% and is close to 8% per year over the past five years. These returns are after all fees. Also note that these returns are based on an asset mix of approximately 65% invested in equities with the remainder invested in short-term deposit accounts, bonds and preferred shares. This mix has varied over the past five years but in general we have averaged approximately 60-65% invested in equities. Throughout 2016 and continuing for the first six months of 2017 we have experienced record levels of new investments from both existing clients and new clients. This new cash, which we are slowly and strategically deploying, weighs down our overall performance in an upward moving market, but does not impact existing investors, since all our clients have their own personalized segregated accounts. The performance we are discussing is our aggregate performance across all our accounts. Each client's portfolio is unique, and performance will vary, based on your risk tolerances, specific asset allocation and the time you began investing with Rocklinc.

When we dig into our numbers, we find that our basket of equities actually increased by 1.8% during the second quarter, and by 10% during the past 12 months (period ending June 30, 2017). Our 100% equity weight has been compounding by approximately 12% per year, over the past 3 years and by 16% over the last 5 years. Given the conservative nature of our portfolios, we are pleased with our progress, but never content. We are cognizant that our investors are more interested in future returns, and not as interested in looking out the rear view mirror at past results! We can assure you that we are working hard, to ferret out unique opportunities for your investment portfolios. Both Jesse van de Merwe and Andrew Cheng are spending the majority of their time keeping up with our existing holdings and researching new investments! One of the new companies we added recently to many of our client portfolios is CCL Industries, which we will be discussing in future updates. CCL is a global leader in specialty packaging, the world's largest converter of extruded film materials for labels of all descriptions. Over the next six months we will be slowly adding a new company or two and pruning some existing positions from our portfolios.

During the first half of 2017 the best performing sectors, (top 6) in our portfolios and their percentage changes were:

1. Manufacturing +15%
2. Technology +14%
3. Infrastructure +11%
4. Consumer Staples +10%
5. Water/Industrial +8%
6. Precious Metals +7%



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We had two sectors that performed negatively during the first six months similar to the first quarter, and that was our agricultural holding, along with our energy stocks. Fortunately these represent two of our smallest weights and therefore the impact on our overall client portfolios was minimal.

Our agricultural holdings were negatively impacted by Agrium, which dropped by 15% during the first six months of the year. Our other two main agricultural holdings fared much better as Input Capital edged up slightly during the period and John Deere advanced by almost 20% in USD terms. We have begun to add to our Agrium position, and the stock has actually climbed back by almost 5%, in the first few trading days of July! We remain bullish on the long-term prospects for Agrium, and the agricultural sector in general.

The energy sector, simply stated, is having a tough time! During the first six months of the year oil fell by more than 14%! We maintain a small weight in the oil and gas sector with three main positions, Suncor, BP and Exxon. All three positions decreased on average by 13% in Canadian dollars. Despite share price weakness all three companies are highly profitable at today's oil and gas prices and pay dividends averaging well over 3.5% at current share prices (BP's dividend yield is almost 7%). The world today is awash in oil and gas, and there is no shortage of new finds. We also continue to see more and more substitution away from fossil fuels, albeit at a slow rate. For these reasons and others, we are not bullish on the long-term price of energy and prefer to invest in energy infrastructure businesses, such as Enbridge and TransCanada, along with businesses operating in the renewable energy sector, such as Brookfield Renewable and TransAlta Renewable.

Overall, we are off to a solid start in 2017, despite a great deal of uncertainty in the world. Two significant challenges facing Canadian investors are the increasing interest rates and the rising Canadian dollar! In particular the rising dollar is creating short-term headwinds for many of our investments given their substantial operations outside of Canada. As our dollar increases in value the share prices of our companies in Canadian dollars are bound to come down a wee bit! This is nothing to be concerned about! As we have cautioned our investors before, changes in currencies tend to wash out over time, especially when buying great global businesses that operate in many countries, and make money in numerous currencies.

#### **D. Moving Forward - Tightening Interest Rates?**

As discussed in our last update in March, the Federal Reserve has initiated the fifteenth tightening cycle since 1945<sup>i</sup>, after some of the most lax monetary policies in human history! In 80% of the prior fourteen episodes, recessions followed, with business contractions taking place in eleven of the fourteen tightening periods. What is notable today is that the economy is in the 96th month of this expansion, a length of time that is well beyond periods in prior expansions where soft landings occurred (1968, 1984 and 1995).<sup>ii</sup> This means that the economy is extremely vulnerable to a shock, which could lead to recession.





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We must move forward with caution in the current environment. Our primary focus is on the businesses we own, their respective valuations and future growth prospects.

There are four important considerations that exist today, that were not present in past cycles, and that could magnify the current monetary tightening actions of the Federal Reserve (and other central banks):

1. The Fed has initiated a tightening cycle at a time when the overall economy is still very weak with growth in nominal GDP lower than in any of the prior fourteen cases when tightening occurred. The recovery from the financial crisis of 2008-2009 has been the weakest in recorded history.
2. Business, government and personal balance sheets are laden down with record amounts of debt. This means that even small changes in interest rates will likely have a whopping impact on investment, spending, and savings decisions within the economy. If debtors are now at the end of the rope, in terms of their ability to service their debts, what happens when rates climb materially? Are we beginning to see some of the impact of increasing interest rates on our own housing market in Canada, and in particular Toronto?
3. The aging demographics within virtually all the industrialized countries are unprecedented. The underfunding of pensions and other social programs is at a record level and the demands that are being placed on governments from an aging population, that are short of savings, are simply not payable, without a substantial restructuring of obligations. Restructuring is a code word for economic pain!
4. The addiction to free/easy money has never been so entrenched in the economy. Getting off this addiction will not be easy. Whatever is free is generally squandered. This is certainly the case with money in the hands of politicians and a decadent populace. Over the past 8 years there has been very little motivation to invest wisely and consider the opportunity costs of spending versus long-term saving. This has resulted in substantial malinvestments around the world. It will not be different this time! We will have to experience payback, for wasting precious resources, and living beyond our means!

## **E. Moving Forward - ROCKLINC Investment Portfolios**

As we have explained many times, the market is manic-depressive, as investors we must always be prepared to take full advantage of volatility, or significant price swings. Our basic strategy, which has not changed, continues to be summarized in the following six points:

1. Diversify across asset classes, sectors and geographic regions.
2. Invest in businesses with strong balance sheets, backed by hard/tangible assets.
3. Invest in firms that produce essential products and services, in growing industries.



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4. Avoid/minimize highly leveraged financialized firms that have incomprehensible balance sheets, loaded with risky derivatives.
5. Keep high quality liquidity in portfolios, in order to take advantage of any extreme moves in the stock market.
6. Stay optimistic and opportunistic without being naive to the risks all around us. It is not a time to be complacent and keep some exposure to precious metals!

If you have any questions pertaining to your account please call or email for an appointment.



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<sup>i</sup> Hoisington Investment Management, Quarterly Review and Outlook (First Quarter 2017).

<sup>ii</sup> *Ibid.*