ROCKLINC

Worth.Investing.

Festina Lente

A. Make Haste Slowly

T.S. Eliot once asked, "Where is the wisdom we have lost in knowledge? Where is the knowledge we have lost in information?"[1] Today we take this one step further and ask, where is the information buried in all the data? We may be living in the "information/data age", but we are certainly not living in the "age of wisdom." What value is there in a data revolution, when there is a decreasing level of wisdom throughout the culture? What is the real benefit of our fiber optics lines and our satellites, that allow us to move enormous amounts of data all around the globe, if we are not growing in wisdom?

The key challenge in this new era of massive data is the challenge of using a quality filter. The most important filter we have is our worldview. It serves as the necessary foundation and framework for all our thoughts and actions. If you have watched someone build a home you will notice two essential components: its foundation and its frame. These two components provide the home with its stability, shape, and structure. A similar principle applies to your thought-life; it needs foundational assumptions and a framework of guiding principles to provide your thinking with a basic stability, and form. For example, you cannot reason intelligibly about your experiences without some basic presuppositions about what your experiences are, where they come from, and what principles of reason you can apply to them—even if you take those presuppositions for granted and don't consciously reflect upon them. Our worldview is the single greatest influence on the way we interpret our experiences and how we respond to them.

One of the greatest wisdom books every written is the book of Proverbs. The majority of this book was written by King Solomon and the purpose of the book is to help us develop wisdom. The book of Proverbs provides us with a practical framework, in which we can apply our knowledge and information to everyday life. In the book, wisdom can overlap with the modern use of the term (ie. insightful, perceptive, shrewd, able to apply knowledge to many people and different circumstances). Some examples of this wisdom in the book of Proverbs includes the following:

(1) The skill to survive and thrive within the vagaries of life.

(2) The skill to get along with other people (ie. social skills). How to get along with friends, employers, rulers, spouse and above all our Creator.

(3) Wisdom refers to technical skills or to administrative skills. It can refer to the ability to listen attentively and also penetrate to the heart of the matter by the proper use of reason rooted in correct faith commitments.

In general, the Book of Proverbs is about "godly wisdom", how to obtain it and how to put it into practice. It's about priorities and principles, not about get rich-quick schemes or

[1] T.S. Eliot, *Collected Poems* 1902-1962

trite success formulas. It tells you not how to make a living, but how to be skillful in the lost art of making a life.[2] It provides its readers with the ultimate worldview to screen out all the noise including the irrelevant and dangerous data along with the temptations of life that can bring a person to ruin.

The wisdom of this book is not arbitrary and inconsistent, as King Solomon emphasizes, since the wisdom of Proverbs finds its source in the One who created and sustains everything in the world! After all, what greater source of wisdom could there be than the One who is omniscient and created and now sustains all things!

There is a verse that rings out to me today with abiding truth, it is: **Proverbs 21:5**; ***"The plans of the diligent lead surely to abundance, but everyone who is hasty comes only to poverty."*** How applicable to our situation, what timely wisdom! This is a time for diligence, focus and deliberative steps! The fastest way to move forward, is to go slowly in order to avoid as many of the landmines as possible! Two thousand years ago several of the Roman emperors used the expression **"festina lente"**, interpreted as ***make haste slowly***! They acknowledged (not sure how well they executed on this) that activities needed to be performed with a proper balance of urgency and diligence, if costly mistakes were to be avoided!

The US Federal Reserve $4.5 Trillion Sell-Off

A few weeks ago the US central bank, the Federal Reserve (Fed), announced it would begin reducing its balance sheet, by slowly selling off its $4.5 trillion of debt it accumulated since 2008, by buying up toxic mortgages and Government Treasury bonds, at above market rates. As we have discussed in previous write-ups, all these securities were purchased with printed money (created ***ex nihilo***) injected directly into the banking system. (Please refer to graph on next page for the details of this massive buildup.)

The Fed has continually argued, ever since 2008, that this was necessary in order to 'bail out the banks'. By 2011, the banks were largely bailed out and yet the "free money" from the Fed continued for another six years. During this time, the Fed printed record amounts of US dollars and went on a $4.5 trillion bond buying spree, with the sole purpose of driving down interest rates to historically low levels, and providing an ongoing subsidy to the banks and debtors.

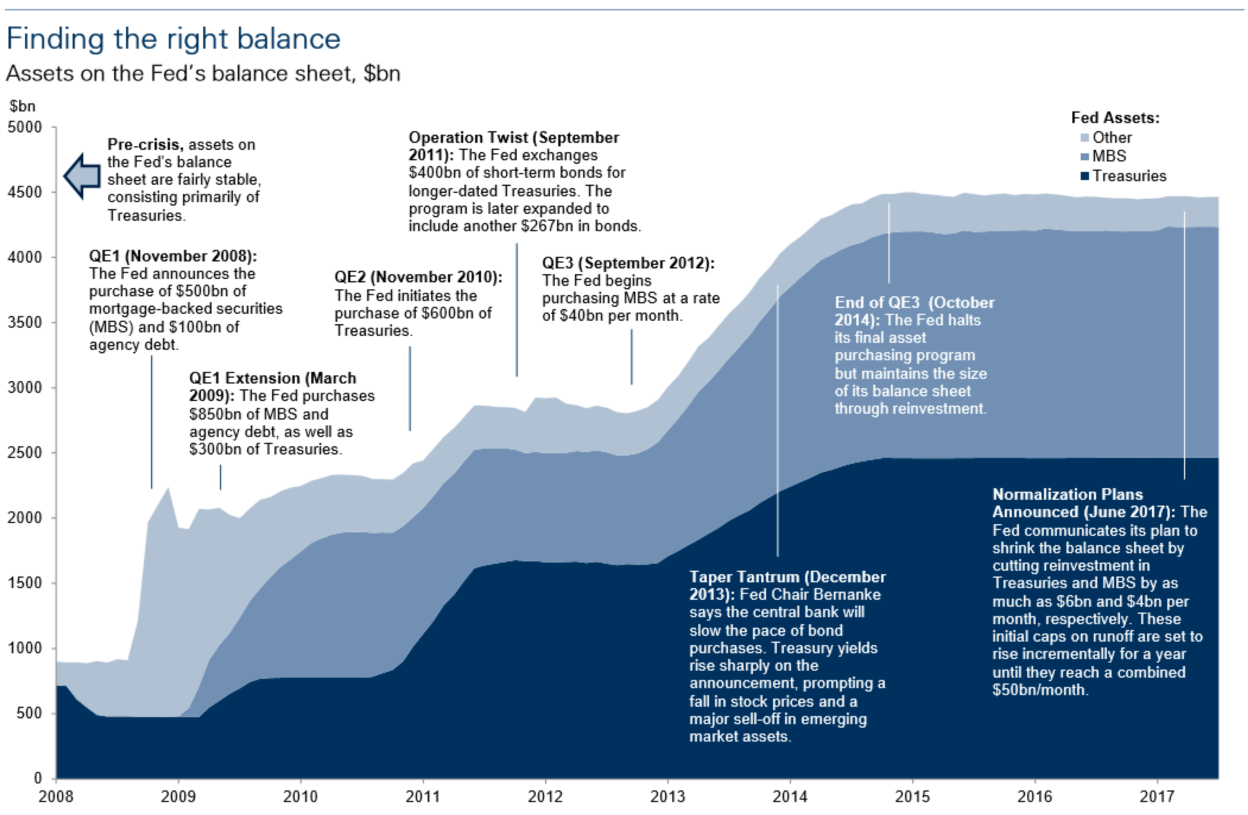
What was originally a bank bailout in 2008-09, became a permanent 'banking system subsidization' program by the Fed. The Fed's recent announcement that it will begin selling off the debt it has accumulated, will have the effect of raising interest rates in the face of record levels of outstanding debt across the world. For us as investors, it is hard to believe that a rise in interest rates and a reversal of Quantitative Easing (QE), will not have a negative impact on stock valuations and put tremendous pressure on debt-laden consumers, businesses and governments around the world.

We believe that the Fed's recent announcement, that it will sell off of its $4.5 trillion debt, is more 'fiction' than reality. It is much more likely, that the Fed will be stuck with most of its $4 trillion plus in debt entering into the next downturn, and is closer to printing

[2] Warren Wiersbe, *Be Skillful, p.7.*

more money than pulling significant amounts of money out of the global financial system. When we look at the financial system and its fragility, we simply cannot see an easy way back to “normalization” in monetary policy, without heightened volatility in asset valuations.

No one knows for sure how sensitive the US economy may be, in the post-2008 world, to rapid or large hikes in interest rates. Over the past 8-plus years, the US economy (as well as the global economy), has become addicted to low rates and dependent on having continual and greater injections of cash. Weaning it off this addiction too quickly, will result in a sharp rise in interest rates and may precipitate a major drop in equity values. We need to be careful and prepared, and not naïve. True wisdom calls us to not blindly trust the central bankers, who have backed us into a very risky corner. We must ***“make haste, slowly”***.



Source: Federal Reserve Board, Goldman Sachs Global Investment Research.

The $20 Trillion Fanatical Experiment

It’s not only the Fed that has been printing wads of new money! For the past nine years, the major central banks across the globe have embarked on an unprecedented experiment, injecting tens of trillions of dollars of liquidity into their banking systems and economies! This has been performed by the means of programs of quantitative easing (QE), zero interest rates (ZIRP) and even negative rates (NIRP), among other more traditional means. The consequence has been the ballooning of all their balance sheets.

Officially, the balance sheets of the five major central banks today total over $20 trillion. The Fed's contribution is $4.5 trillion. The ECB's just short of $5.0 trillion, but still rising as it continues its quantitative easing (money printing, ex nihilo). The Bank of Japan is more than $5 trillion, while it continues to aggressively buy not only government and corporate bonds, but private equities and other non-bond securities as well. The Bank of England's total is approaching $1 trillion, after it introduced yet another QE program, in the wake of the Brexit vote in June 2016. The Chinese Central Bank is estimated to be somewhere between $5 and $7 trillion – the result of liquidity injections supporting its state policy banks, along with massive loans to industries and local government construction projects.

Add in other important central banks – such as the Swiss National Bank, the Bank of Sweden, and the central banks of India, Brazil, Russia and others – that in recent years have also significantly increased their balance sheets, and global balance sheets easily exceed $20 trillion! Each of us needs to stop for a moment and think about what this means! More than $20 trillion dollars, printed dollars, backed only by the promises of governments, was injected into the global economy, to prop it up! Do we believe by trying to reverse all this liquidity, we will experience clear sailing?

This historically unprecedented $20 plus trillion global liquidity injections, by central banks worldwide, has led to an increasing addiction within the advanced economies on central bank monetary policy. Any talk of pulling this liquidity out of the global economy should be approached with a massive dose of skepticism. The bottom line is that we need to pay attention to this "normalization" process because of the size and scope of the numbers. The process of levering up the balance sheet to these levels was, we are told, a matter of crucial importance to the global financial system. If that was true, how can we begin to take lightly the unwinding of this unprecedented amount of money printing! Time for a little wisdom!

B. Market Update – Third Quarter Review

The global economy continues to experience a relatively steady, synchronized expansion. Broadly speaking, most developed economies are in the late stages of the business cycle, with the Eurozone and the United States leading the charge. Recession risks continue to rise globally, particularly in the face of less accommodative monetary policy, as discussed in our first section!

A rebound in global trade helped bolster the global economy. The global expansion has been underpinned by a turnaround in export-oriented sectors and manufacturing activity has been spurred on by low interest rates and a continual build up in debt. China's rising import demand, over the past year, has helped increase the number of countries around the globe expand the size of their exports, and hence their GDP. Although China's economy remains in expansion it is too dependent on debt and money printing in order to be sustainable. How far this can continue is any one's guess, one thing is for sure, the debt binge will end at some point, and higher interest rates will eventually have a material impact on real economic growth and the value of stocks around the world. For now, the party continues and we ***"make haste slowly."***

ROCKLINC
Worth. Investing.

Elsewhere, the Eurozone has been on an upswing, enjoying a coordinated expansion across both its core economies (Germany & France) and its periphery (Italy & Spain). The U.K., however, while still experiencing economic growth is confronting a number of pressures, as consumers' expectations weaken alongside rising inflation and faltering real income growth.

The U.S. economy, despite all the noise and attacks on President Trump, remains in expansion, and is now growing at the quickest pace since the financial crisis in 2008-2009. Tight labor markets are supporting wage growth and the U.S. consumer, which is keeping the risk of recession low. Official U.S. inflation rates are likely to remain range-bound due to multiple factors. While tight labor markets, rising wages, and increasing food costs are pushing inflation up, other factors including decreasing housing costs and increasing productivity are serving to dampen inflation. Historically, rising wages pressure and increasing profit margins eventually cause the Federal Reserve (Fed) to tighten monetary policy and this is exactly what we are witnessing. How far this tightening can move forward is what we are watching very closely!

It is important to note that U.S. fiscal policy (government spending and tax policies) is supportive of growth, and hopes for tax-cut legislation represent a potential upside for corporate earnings. However, tax cuts may do more to boost inflation than growth, as rate cuts tend to have a bigger impact on growth when there is a large amount of economic slack and monetary policy is easing (unlike today). Meanwhile, the ongoing tensions in the Korean peninsula represent a potential catalyst for market risk and increased volatility, which is always the friend of long-term investors.

U.S. inflation and global growth have given the Fed confidence to gradually hike its short-term policy rate; other central banks may also recognize the need to begin moving away from extraordinary easing. The Fed's unwinding of its balance sheet, and the ECB's likely tapering of asset purchases next year, could pose a liquidity challenge to markets. Overall, the global economy is in a synchronized expansion amid low inflation, with an increasing risk of a recession. For investors, the shift toward global monetary policy normalization (increasing interest rates and reversing some of the money printing) will likely boost market volatility. We will do our best to profit from any significant market swings.

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

	Sept. 30, 2016	**June 30, 2017**	**Sept. 30, 2017**	**3 Month**	**1 Year Return**
CAD/USD	$.7624	$0.7713	$0.8061	4.51%	5.73%
Oil WTI (US $)	$48.24	$46.04	$51.64	12.16%	7.05 %
Gold (US $)	$1322.50	$1,241.42	$1278.50	3.00 %	-3.33 %
Silver (US $)	$19.15	$16.59	$16.65	.362 %	-13.05%
S&P/TSX	14,725	15,182	15,635	2.98%	6.20%
S&P 500	2,168	2,423	2519	3.96%	16.2 %
Cdn 10 yr	.95%	1.75%	2.10%	35 bps	115 bps
US 10 yr	1.60%	2.31%	2.33%	2 bps	73 bps

ROCKLINC

Worth.Investing.

There are three items of particular note from the foregoing table. First, the ongoing strength in the Canadian dollar in comparison to the US dollar, second the much lower volatility 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 bond Index in Canada was down by 1.5% over past 3 months, but is down a whopping 2.70% over the past year. Rising rates are really taking their toll on the value of bonds across the world and in Canada. The lower bond prices simply 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? First, continue to use the higher Canadian dollar to buy more global assets and diversify your risk. Second, only invest in commodities selectively where the long-term demand should put an upward bias on the prices of the commodities. Third, minimize exposure to long-term bonds, because they are the assets most vulnerable to increasing rates! Lastly, be prepared for stock prices to decrease in value as interest rates increase. If we are prepared, we can take full advantage of cheaper prices and increase our long-term returns. Our message remains, ***"make haste slowly."***

C. ROCKLINC Investment Update

In terms of our ROCKLINC portfolios, in aggregate, across all our accounts, they edged up .3% during the third quarter of 2017 and up 4.8% and 4.4% year to date and during the last 12 months (period ending September 30, 2017). Our average annual compound rate of growth over the past 3 and 5 years is clocking in at approximately 7%. These returns are after all fees. 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 slightly over the past five years, averaging approximately 63%, in equities. Throughout 2017 we have experienced a consistent flow of new investments from both existing clients and new clients. This new cash, which we are strategically deploying, can hold back our overall performance in an upward moving market, but it 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 .3% during the third quarter, and by 6.4% during the past 12 months (period ending September 30, 2017). Our 100% equity weight has been compounding by approximately 12% per year, over the past 3 years and by 13% over the last 5 years. Given the conservative nature of our portfolios, we are pleased with our progress, but remain focused on the future. 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 along with myself, are spending the majority of our time keeping up with our existing holdings and researching new investments! We have a brief discussion later in this update on one of our more recent additions, Honeywell International.

ROCKLINC

Worth.Investing.

During the last 12 months (period ending September 30, 2017) the best performing sectors, (top 6) in our portfolios and their percentage changes were:

1. Manufacturing +18%
2. Financial +15%
3. Infrastructure +12%
4. Technology +11%
5. Energy +10%
6. Water/Industrial +5%

We had two sectors that performed negatively during the past 12 months and those were the consumer staples sector and precious metals. The consumer staples space performed poorly for two main reasons. First, it has been an area of strong performance leading up to the last year. When the markets are risk averse they tend to bid up the price of consumer staple businesses and when the markets are more risk taking (post US election in 2016) consumer staple stocks can weaken. Second, our consumer staple businesses all trade in the US and have significant US dollar exposure. With the 6% rise in the Canadian dollar over the past year our consumer staples businesses in Canadian dollar terms had to increase by at least 6 percent to keep pace with the Canadian dollar's rise. To us, this is largely noise, since we own wonderful businesses such as, Church & Dwight, Pepsico, Nestle and Kraft Heinz for the long-term.

The precious metals sector was our worst performing sector over the last 12 months dropping by approximately 8%. Interestingly, the same holdings are up 11% year-to-date! This sector is extremely volatile and took a major hit in the fourth quarter of 2016 after a massive move during the first 8 months of 2016. As we continue to inform you, we own stocks in this sector as a hedge against financial problems and a major downward move in the stock market. The wild ride is more than worth it! Please note that the companies we own in this sector are the leading financiers to the mining industry and are highly profitable, with three of our four holdings paying dividends and generating record levels of profitability in 2017. Over the past two years, our holdings in this sector have compounding by almost 30% per year!

Overall, we have made steady progress in 2017, after a robust 2016. We continue to look for new companies to own, while holding and adding to existing positions in great businesses. Over the past 18 months we have added several new companies, pruned a few and continue to add to the bulk of our major holdings. One relatively new company we have been adding to many of our accounts is Honeywell International.

Honeywell International

With the advent of the 4th Industrial Revolution, also known as the "Internet of Things", automation and robotics have dramatically reduced the need for human intervention in certain tasks within the industrial and manufacturing industry. As homes and factories become more digitally connected to the internet, we believe that the automation and robotics sector will continue to grow in importance. One way to benefit from the growth in these areas is to invest in large diversified companies that have a strong and growing presence in this space.

ROCKLINC

Worth.Investing.

Aspiring to be the "Apple of the industrial sector", Honeywell International has stayed ahead of its peers by making focused investments in growing areas of automation, logistics, workflow solutions and "Internet of Things". From smart thermostats and smart meter systems to jet propulsion engines and auxiliary power units, Honeywell's diverse breadth of products can be found across millions of homes, buildings and plants. With a rich history of over 100 years of product innovations, Honeywell has evolved from a pure-play industrial company to a software-industrial company. Honeywell's management expects that over half of its growth in the next 5 years will be related to software, which generates higher operating margins and strong recurring revenue. Over half of Honeywell's 22,000 engineers are dedicated to developing software solutions and integrating technology, such as cloud computing, data analytics, cyber-security and "Internet of Things" technology, to its home, building, aerospace, safety and chemical processing business.

In 2016, Honeywell added e-commerce automation to its portfolio by acquiring Intelligrated®, which is a company that designs and manufactures supply chain automation solutions and software across many industries, such as retail, wholesale, food, beverage, pharmaceutical and consumer packaged goods. These solutions are designed to improve efficiency, and cut costs and reduce product delivery times. As e-commerce becomes a larger proportion of the consumer economy, Intelligrated will become a more valuable asset in Honeywell's portfolio.

Honeywell's strategic investments have not only strengthened its portfolio but also benefited its bottom line. Over the past 5 years, Honeywell's net income and free cash flow have grown at a compounded annual growth rate of 10.4% and 10.8%, respectively, while its peers such as Johnson Control, United Technologies and General Electric have all experienced declining net income over the past 5 years. The company has been able to achieve this growth without compromising its balance sheet by maintaining a strong cash position (just shy of $8 billion) and prudently deploying debt.

From an investment perspective, we believe that Honeywell's diversified business and portfolio approach to investing in automation and other growth sectors, will position them as one of the most significant software-industrial firms moving forward. We will continue to build a meaningful position in this company as it fits into our client's portfolios and valuations warrant.

D. Moving Forward – ROCKLINC Investment Portfolios

Let's end where we began, **festina lente**! If we are to make real progress in this world we need to ***"make haste slowly"***! Solomon reminds us that ***"the plans of the diligent lead surely to abundance, but everyone who is hasty comes only to poverty."*** The market is manic-depressive at the best of times, and as investors we must always be prepared to take full advantage of volatility, or significant price swings. The unwinding of QE and the "proposed" reduction of the Fed's balance sheet can only work to the benefit of those who are prepared.

Our basic strategy, which has not changed, continues to be summarized in the following six points:

ROCKLINC

Worth.Investing.

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.

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 be opportunistic without being naive to the risks all around us. Be wise! Utilize a consistent worldview in order to filter out all the worthless data!

"Wisdom is supreme. Therefore, get wisdom, and in all your getting get understanding." Proverbs 4:7 (King Solomon, 10th Century BC)

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

ROCKLINC

Worth.Investing.

ROCKLINC INVESTMENT PARTNERS INC.

Contact Information

ROCKLINC INVESTMENT PARTNERS INC.

4200 South Service Road, Main Floor

Burlington, Ontario

L7L 4X5

Tel: 905-631-LINC (5462)

www.rocklinc.com

Doretta Amaral	damaral@rocklinc.com	(ext. 1)
Jonathan Wellum	jwellum@rocklinc.com	(ext. 2)
Andrew Cheng	acheng@rocklinc.com	(ext. 5)
Jesse van de Merwe	jvandemerwe@rocklinc.com	(ext. 3)
Jonathan Wellum Jr	jwellumjr@rocklinc.com	

Disclaimer:

The information contained herein reflects the opinions and projections of ROCKLINC (ROCKLINC) Investment Partners Inc. as of the date of publication, which are subject to change without notice at any time subsequent to the date of issue. ROCKLINC does not represent that any opinion or projection will be realized. All information provided is for informational purposes only and should not be deemed as investment advice or a recommendation to purchase or sell any specific security. While the information presented herein is believed to be reliable, no representation or warranty is made concerning the accuracy of any data presented. This communication is confidential and may not be reproduced without prior written permission from ROCKLINC.