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One Year of "The Donald"

A. Market Update – Review of 2017

Driven by the most synchronised global growth since 2010, and led by a robust US economy, 2017 was a strong year for equity markets. Even Europe managed to deliver strong growth numbers, while China and other emerging markets held their own. Without a doubt, politics continued to dominate! At the start of the year, there were numerous concerns over the outcomes of pending elections in the UK, France and Germany. In the end, very little changed and the establishment candidates prevailed. When it was not election hype, it was President Trump and his tweets that seemed to overwhelm the news establishment. And when it was not Trump, it was political tension in Asia, including of course, North Korea and their tyrannical leader, now known around the world as simply, "Rocket Man". If you only listened to the "Fake New Networks", you would have thought we were on the precipice of some apocalyptic moment and that the world was careening out of control! The contrast with what was happening in the worlds capital markets could not have been starker! While CBC (our Liberal Party Canadian news propaganda network) and CNN (the least trusted news network in the world) fretted about irrelevancies, stocks ignored them and rose throughout the year!

Why? Because the global economy continued to expand, with a breadth and depth not seen in a long time, and with the global growth came a commensurate growth in corporate earnings. On the whole, 2017 began with lots of question marks, but ended with Trump's Tax Cuts and Jobs Act, which will have a substantial impact on the taxation of multinational companies and be a major positive for the global capital markets in 2018. How much of this is now priced into the markets is the big question. With Trump's tax cuts now in place, US corporate earnings are expected to remain strong and grow by double digits in 2018. Given the expected growth in earnings, coupled with drive on the part of the global central banks to lift interest rates in 2018, equities will continue to be the asset class of choice. With valuations currently at elevated levels, we must be careful and focus on the best value we can find. We will remain disciplined and carefully allocate new monies only to securities that reflect long-term value, and will protect your capital, when the eventual downturn materializes.

Turning to the fixed income markets, we remain cautious and underweight. It appears that the 3-decade long bull market in bonds has finally come to an end. As a result, we continue to keep our bond durations very short. The normalization of monetary policies will largely depend on the US Federal Reserve, which will likely increase rates twice during 2018, although they have advertised up to three interest rate hikes during the year. We will definitely be keeping an eye on them! If political risks or growth concerns develop, our exposure to precious metals, through leading royalty companies, will continue to reward us handsomely.

Overall for 2018, we expect markets to edge higher, but any increase may be interrupted by a correction of unknown magnitude, which is already overdue. For the time being, we will

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continue to adhere to the wise words of Denis Waitley: ***"Expect the best, plan for the worst, and prepare to be surprised."***

The Canadian equity market advanced by 3.7% in the fourth quarter, and by 6% during 2017, (without reinvested dividends). With all dividends reinvested the index increased by 9%. In 2017, the sectors that contributed most significantly to the upward move in the S&P/TSX were healthcare (otherwise known as cannabis) (+32%), consumer discretionary (+20%), industrial (+17%), information technology (+16%) and financial (+9%). The worst performing sector was the energy sector which dropped by approximately 10%. While the price for oil continues to edge higher, the actual price of Canadian crude continues to lag substantially and natural gas prices are close to their multi-year lows. As we have discussed in previous newsletters we are agnostic when it comes to the price for oil and gas and therefore maintain small direct exposures to the sector. We prefer to invest in businesses that provide services and infrastructure assets to the industry over businesses involved in the actual exploration and production of oil and gas.

Market action during the fourth quarter and during 2017 is captured in the following table.

	Dec. 31, 2016	**Sept 30, 2017**	**Dec. 29, 2017**	**3 Month**	**1 Year Return**
CAD/USD	$.7448	$0.8061	$0.7971	-1.1 %	+7.1 %
Oil WTI (US $)	$53.72	$51.64	$60.42	+17.0 %	+12.5 %
Gold (US $)	$1,150.90	$1,278.50	$1,296.50	+1.41 %	+12.65 %
Silver (US $)	$16.43	$16.65	$ 16.865	+1.29 %	+2.65 %
S&P/TSX	15,288	15,635	16,209	+3.67 %	+6.02 %
S&P 500	2,239	2,519	2,674	+6.15 %	+19.43 %
Cdn 10 yr	1.72%	2.10%	2.04%	- 6 bps	+32 bps
US 10 yr	2.45%	2.33%	2.40%	+7 bps	-5 bps

(Index returns do not include reinvested dividends)

Turning our attention briefly to the U.S., the S&P 500 Index gained 6% during the fourth quarter, and advanced by 20% during 2017. Adjusting for the large increase in the Canadian dollar the S&P 500 was up approximately 13% in 2017. Overall the US capital markets were driven by the strong pro-business policies of Trump. We will discuss a number of his major accomplishments later in this newsletter. Suffice to say, the slashing of regulations and the lowering of both personal and business taxes acted as huge incentives for the market to move ahead with a renewed optimism! This was evidenced in the advancement of the US stock market.

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B. ROCKLINC Investment Update

In terms of our ROCKLINC portfolios, in aggregate across all our accounts, they were up by 3.2% in the fourth quarter of 2017 and up 8% during the full year. Our average annual compound rate of growth over the past 5 years is clocking in at 7.3%. These returns are after all fees. It is important to note these numbers 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 about 60-65% invested in equities. Throughout 2017, we experienced strong levels of new investments from both existing clients and new clients. This new cash, which we are slowly and strategically deploying can weigh 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 and specific asset allocation.

When we delve into our numbers in more detail, we find that our basket of equities actually increased by over 12% during 2017 (despite a 7% increase in the Canadian dollar vs. the USD), and by approximately 11% per year over the past 5 years. Given the conservative nature of our portfolios, we are pleased with our progress, but always looking for more. Investors are more interested in future returns rather than past performance so we will continue to work hard to produce the best risk adjusted rate of return! We are working hard to ferret out compelling investment opportunities for your portfolios, opportunities that can succeed in the future despite the inevitable challenges.

During 2017 the best performing sectors in our portfolios and their percentage change were:

1. Manufacturing +21%
2. Precious Metals +20%
3. Healthcare +18%
4. Water Industries +18%
5. Technology +17%
6. Real Estate +16%

Here are the 2017 total returns of 14 large holdings representing 50% of our equity holdings. We have arranged them alphabetically. Note the * designated returns in US dollars. Given the 7% plus increase in the Canadian dollar relative to the US dollar you need to deduct 7% from these returns, marked with an asterisk, to adjust them to Canadian dollar returns.

1. Agrium/Nutrien +7%
2. American Tower +35% *
3. Becton Dickinson +30% *
4. Brookfield Infrastructure +25%
5. Brookfield Renewable +10%
6. Ecolab +16% *
7. First Capital Realty +0%
8. Franco-Nevada +25%

9. Google (Alphabet) +32% *
10. Honeywell +33% *
11. Royal Gold +30% *
12. Sandstorm Gold +19%
13. TD Financial +11%
14. Wheaton Precious Metals +7%

Throughout 2017, none of the sectors we use to categorize our investments turned in any negative numbers.

TE Connectivity

We continue to look for new opportunities and companies we believe are uniquely positioned, to take advantage of irreversible long-term secular changes. One area that continues to grow quickly is the area of automation and the need for connectivity. TE Connectivity Ltd., is a $13 billion global technology and manufacturing leader focused on products that build a connected future! For more than 75 years, they have provided leading edge solutions, proven in the harshest environments across multiple industry sectors. With over 78,000 employees, including more than 7,000 engineers, working hand-in-hand with their customers, TE is well positioned to grow quickly over the next 5-10 years.

From subsea communication networks to electronic appliances, virtually all electronic devices and machines require some form of electrical connector to transmit power, signal or data. Electronic connectors are vital in creating the electrical circuit and connectivity for machines and devices to operate. Since 1980, TE Connectivity has been the leader in designing and manufacturing highly-engineered electrical connectors. Within the past 5 years, the company has strategically positioned its business across areas with attractive long-term prospects, while pairing down legacy businesses with lower profitability and growth. For instance, the company has made several acquisitions and investments to bolster its portfolio of “harsh-environment” connectors, which can withstand extreme temperatures, pressures and chemicals. This strategy helps to differentiate the company from its competitors and reduce the commoditization of its products.

The company operates in three main growing markets: transportation, industrial and communication. As vehicles become outfitted with greater technology, such as vehicle infotainment systems, advanced safety systems and automotive sensors, there are greater opportunities for TE Connectivity to increase its market share of connectors and sensors among major vehicle manufacturers. Currently, over 50% of TE Connectivity’s business comes

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from its transportation segment, which has experienced mid to high single-digit organic growth within the past 5 years.

As factories become more automated with robotics, industrial machines and intelligent systems, TE Connectivity is positioned to provide the "digital nervous system" that enables manufacturers to build intelligent factories and warehouses. Within the last decade, the data and communication industry has experienced explosive growth in mobile devices, which has resulted in greater demand for data usage and faster bandwidths. As a leading supplier of undersea communication systems, TE Connectivity provides subsea fiber optic cables that provide the "backbone" of cloud data networks, which will continue to experience long-term demand.

From an investment perspective, we believe that TE Connectivity's position within the automotive market and its "harsh environment" product strategy will position the company to benefit from long-term secular trends and provide a sustainable advantage over its competitors. We plan on building a meaningful position in this company based on valuation and fit within our client's portfolios.

C. One Year of "The Donald"

We began last years' report on the election of Donald Trump with the following words,

> "It goes without saying, that the elephant in the room, when it comes to investing and what to expect in 2017 centres on the election of Donald J. Trump as President of the United States. As our investors know from our past communication, Donald Trump's victory should not have been a surprise. Given the frustration of the middle-class with the ruling establishment it was not a shock that people would vote to "drain the swamp" of Washington DC! Trump was uniquely positioned to bypass the corrupt and bias media and get his message out to voters in the heartland of America, and they responded with overwhelming support, much to the horror of the existing Establishment! ***Trump's victory is without doubt a net positive for the US economy <u>relative to the alternative</u>, a Hillary Clinton presidency and the continuation of the corrupt and globalist status quo***."

We then provided you with 15 reasons why the election of Donald Trump would be a positive for the US economy and for the global economy. We finished by saying the following:

> "If Trump can put most of his plans into action, expect a more vibrant, dynamic and faster growing US economy to emerge. It will not be easy and the path forward will have many ups and downs, but overall it is bullish for the US economy and we will be looking aggressively for businesses that can prosper from Trump's policies of lower taxes and regulations and a freeing up of the animal spirits in the US."

Looking back on President Donald Trump's first year in office, he compiled a long list of accomplishments. Most importantly he fulfilled many of his key campaign promises, which is not typical of politicians! That does not mean that he did not have his share of failures, he obviously did. But overall, when considering how much he was able to accomplish it is nothing short of amazing, especially given the unprecedented level of never-ending obstruction he experienced throughout the year.

As one author expressed it, “He was the first president in memory to be deprived of the “honeymoon” period after Inauguration Day and, frankly, opposition at times has risen to levels that could arguably constitute downright treason. Sure, his presidency, much like his campaign, has been unconventional and his governing style appears to pundits and the main stream media to be rather messy. But that’s exactly what America should’ve expected. America didn’t elect Donald J. Trump to do more of the same and D.C. wouldn’t have had such a vial backlash had he not been trying to keep the promises he made to the American people. Had it been business as usual this year, then we would have grown suspect.”[i]

In the opinion of many conservative writers and observers, Trump’s first year in office is the most successful first year of any president since Ronald Reagan. Below, is a partial list of these accomplishments. Unfortunately, we had to leave some off our list, but we did manage to come up with 28![ii]

1. Real tax reform and tax cuts, by far the most consequential in 30 years. At the time of writing over 200 major US corporations have announced wage and benefits increases for their employees along with major capital investments due to the Trump tax cuts. Apple, for example, has committed to creating 20,000 new jobs in the US and to the repatriation of over $250 billion overseas, resulting in a tax payment of $38 billion in 2018 to the US Treasury. They are also planning to make capital investments of $350 billion over the next 10 years! WOW! The multiplier effect of this investment alone, will have a material impact on the US economy. It will also encourage further corporate investments by other companies in the US.
2. Opening of the Arctic National Wildlife Refuge (ANWR) for oil exploration, an accomplishment few will appreciate who do not remember the 90s and the battle that has raged over these lands. This decision will over time help to fortify the US as the global leader in energy production.
3. Killing the Obamacare mandate that financially penalized those making less than $50,000 a year. (Hopefully in Trump’s second year he will be able to pass a complete repeal of Obamacare and replace it with a private market alternative).
4. The Islamic State (ISIS), which ascended to a significant place of power under the previous administration, has been severely weakened (some say wiped out).
5. After just 1.9 percent GDP growth in 2016, the US has just experienced two quarters in a row of growth in excess of three percent; predictions for the final quarter of 2017 are as high as four percent. US growth is causing the IMF to revise its’ expectations for global growth to levels not seen for over a decade.
6. The appointment of Supreme Court Justice, Neil Gorsuch, has already proven to be the perfect replacement for Justice Antonin Scalia. By appointing Gorsuch, Trump

[i] Richard Baris, editor-in-chief of People’s Pundit Daily.

[ii] John Nolte, Breitbart, December 21, 2017.

is demonstrating his commitment to Western values and law as reflected in the US Constitution and Declaration of Rights.

7. The Keystone XL and Dakota Access pipelines are a go — which means tens of thousands of jobs and the ability to move large quantities of energy throughout the country at the lowest possible costs without compromising safety.
8. A record number of judicial appointments on the appeals courts will help underpin for years to come the rule of law and a greater respect for the US Constitution and an originalist interpretation of that important document.
9. The end of the War on Clean Coal. The fate of Clean Coal should be decided in the private market and not by government edict. During 2017, the result has been a surge in coal mining after years of decline.
10. The end of the federal government's violating the religious conscience through Obamacare mandates involving birth control and abortion pills.
11. The civil rights movement for school choice received the green light throughout the country. Without a more competitive school system, particularly in the inner cities there is very little hope for the next generation of inner city young people to be able to compete globally.
12. Illegal immigration is way down. No country can protect its citizens and its core values without a legal immigration system that respects the rule of law and screens each person entering the country.
13. The stock market hit record highs 70 times in 2017, rising 5,000 points for the first time in 12 twelve months. Stock market participants saw the good news and did not pay attention to the main street media.
14. The long-overdue recognition of Jerusalem as the capital of Israel.
15. Ending the flawed and expensive Paris Climate Change treaty. This treaty had little to do with climate change and everything to do with globalization, increased taxes and transferring more wealth from developed countries to thoroughly corrupt developing countries that were largely exempted from the Treaty (ie. China and India).
16. Regulatory reform is just getting started, but it has already had a huge effect on the US economy. For every new regulation the Trump Administration has eliminated 22 regulations. The strangulation of excessive regulation on the US economy has finally been eased.
17. Return of nearly two million acres to the state Utah that the federal government had stolen. This reflects a return of power to the States and reducing the trend of the past 3 decades of centralizing power in the hands of the Federal Government. The more decisions that can be made where there is greater accountability and proximity to those governed the better the decision will be overall.
18. A number of significant trade deals were announced including a $250 billion trade deal with China.
19. Trump put pressure on his NATO allies to pay their fair share of expenses. Many nations have already responded by meeting their stated obligations.
20. Consumer confidence is the best the US has seen in more than a decade.
21. Pulled us out of the Trans-Pacific Partnership (TPP) in favor of the American worker and sovereignty.
22. Black unemployment is at a 17-year low.
23. Hispanic unemployment is at an all-time low.

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24. Overall unemployment is at record lows.
25. Manufacturing jobs are expanding quickly and housing sales are at an 11 year high.
26. Standing up for persecuted Christian minorities in the Middle East and other high risk areas in the world. With over 100,000 martyrs per year (80% Christian), there are only a handful of governments opposing this brutal oppression.
27. Protecting Religious Freedom in the US, including the right of doctors to act according to their religious convictions when it comes to controversial procedures such as abortion and euthanasia. One of the essential hallmarks of a free and prosperous country is the real presence of religious freedom.
28. Defunding of Planned Parenthood and unprecedented support for the rights of the unborn. Any country that will not protect life from conception to natural death is a country governed by a philosophy and culture of death. Over the long-term countries that undermine the sanctity and value of human life will experience economic decline, government tyranny and eventual collapse. History confirms that there are absolutely no exceptions.

D. Moving Forward

Our refrain continues to be the same. Stay focused, buy great businesses, look for the best value, and keep an eye on the macro economic environment. We know that there will have to be a correction in the market sooner, rather than later. We know that there will eventually be some piece of bad news that the market has not factored into its omniscient view of the world, and this will cause some market volatility. More importantly, we know that we cannot control these items, and when it comes to investing over the long-term, these issues or unknowns are not the most important factors! What is most important is to get the businesses right, and to buy them at the best prices.

As we have stated many times, if the market gets manic-depressive, we are prepared to take full advantage of the volatility! Our basic strategy, continues to be summarized in the following five points!

1. Diversify across asset classes, sectors and geographic regions.

2. Invest in businesses with strong balance sheets and 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.

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

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