Manulife Securities

Wealth DIRECTIONS

SPRING 2018

Bubble? Bubble? Could there be toil and trouble?

Is the market too high? Should I be doing something different now with my investments? Is now the time to invest – should I wait? These are among the most common questions I get from existing clients and those new clients looking to work with us.

No surprise, given that we've just had several very good years of returns back to back. Surely it must all come to an end?

Our view, markets are more or less fully priced. We've all **done very well**, and now is a time to make sure we don't give back what we've made. At the same, our **client's goals haven't changed**. You tell us over and over you want a return that outpaces inflation and taxes (in other words preserve the buying power of my money).

So, how do we do that? At this stage of the cycle:

- We focus on **quality** investments
- We focus on **defense** within our bond portfolios
- We **rebalance**

2017 was notable for its lack of volatility. Typically at least twice a year markets pull back at least 3.5% and once in range of 5%. Not in 2017 though. But, back to form, as 2018 opened up we've seen our first correction in sometime.

Here's some definitions for you:

- **Correction** - a 10% market pull back from the 52 week high. Typically every 18-24 months.
- **Bear Market** - A 20% reduction from the high called a Bear Market. Typically every 3-5 years.
- **Crash** - market reduction of 30% or more. Every 7-10 years. (This last happened back in 2008-2009)

As of January 2018, we are in the 3rd longest bull market in history. **A Bull market is when share prices are rising.**

The big question that we get asked – how long can it go, when will it end?

So, let's look at the facts:

Outside of recessions markets are up more than 80% of time (75% when you include recessions).

We are not in a recession. We do not see any typical signs of a recession. (If you find this really interesting, let us know, as we have exhaustive information on this).

Key points to consider:

- Virtually every recession is accompanied by an inverted yield curve – yield curve is not inverted
- Recessions come with weak and weakening labour markets – labour markets are very strong
- Housing starts declining – not in Canada or US
- US, Canada and global economies contracting – not the case – in fact we have developed Asia, Japan, Europe and North America all showing growth in their economies.
- Positive Inflation Trends – ahh.... the first signs of recession are showing here, rising interest rates and wage growth are inflationary – governments try to manage these competing tensions, but often overshoot, which leads to recession. It's one of reasons we are focusing on quality and defense as we manage your money.

Here's a chart of US Employment since 1954 – the grey lines are recessions. This does not look like a recession – in fact very positive, particularly when you consider 70%+ of US market is driven by the consumer. Investing is not a

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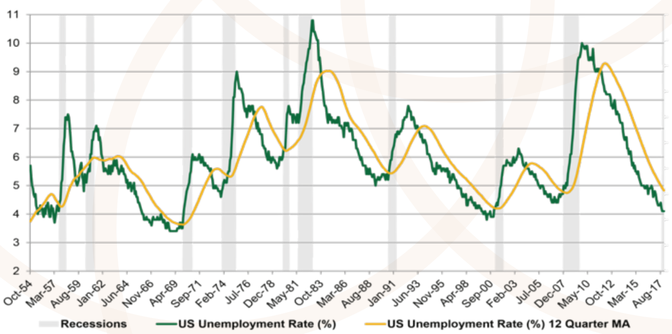
Toil and Trouble (continued)

perfect science. This is why we put certain risk management parameters in place. For example, we like to limit individual security risk (how much you have in one stock) to under 5% of the portfolio (often under 3%). We also like to limit the amount of risk to a certain sector. This means to invest in different sectors (see the sector chart on the last page) rather than only invest in one sector (such as technology stocks).



Source: Manulife Investments, Bloomberg. As of December 31, 2017

What else – avoid the bubble assets!

Bitcoin, marijuana "cannabis' stocks and the one that really gets us – "alternative investments", exempt market products. We don't like the illiquidity (difficult to sell quickly), speculative, promises of 'high' returns (no pun intended).

We cannot perfectly predict when a market correction is going to occur. Nor can we prevent a stock from dropping in value. Our approach is to take a financial planning process to allocate funds into high interest or fixed income as a source of income for those drawing down from their investments so that we are not forced to sell good investments in a down market. We continue to stick to our process of looking for stocks and investments that have barriers to entry by competition, are dominant in their industry, are profitable, a bias for those that pay a dividend and those that offer a product or service which will likely still be needed in five years. Once we have this list, we then look to purchase these investments at attractive prices.

TAX MANAGEMENT

Our experience is that seniors do not like to lose their Old Age Security (OAS) due to claw-backs! The good news is that this often can be controlled and managed depending on the type of income you are earning and through tax optimization. If you know a senior who is worried about their OAS being clawed back, please encourage them to come and meet us.

Education Funding – RESP opportunity for our BC clients

In British Columbia, there is an eligible (one time per child) $1,200 training and education savings grant for children born in 2006 or later. You can apply when the child turns age six. If your child was born in 2006, you have until August 2019 but if your child was born in 2007-2009, you only have until this August 2018 to apply! Not every institution is set up to be able to apply and receive this grant. The good news is that we are! If you know anyone who has a child born between 2006 and 2012 who is living in BC, please have them contact us. The sooner you receive this from the government, the sooner it can start to be invested and grow for your child's education.

Our office still has the capacity to grow the number of clients who work with us without sacrificing the service and advice to the current client base. Diana and I enjoy working with all of our clients.

FEE DISCLOSURE

This is the second year where investors from all securities and mutual fund firms should have received their year-end statements which states clearly the fees and commissions paid to the dealer from the investment funds as well as those received by the dealer directly by the client plus any dealer administration fees.

Statements now include rates of return. 2017 was a good year for most markets. The Canadian broad market (S&P/TSX) returned 8.9% including the re-investment of dividends. The US broad market (S&P500) returned 21.6% including the re-investment of dividends however the return was reduced to Canadian investors to 14.7% due to the surprising surge and increase in the Canadian dollar of almost 7%. Meanwhile, fixed income investments continue to deliver low returns.

Our preference (for a long time) continues to offer client's fee based approach (where possible subject to certain minimum family account sizes). We believe in fee transparency. This past year we have welcomed an increase in new clients primarily from referrals. We continue to have incredible client loyalty. For those who continue to share their experience in working with our office with your friends and family and for encouraging them to contact us to see if it is a good fit working together. Thank You!

Commissions, trailing commissions, management fees and expenses all may be associated with mutual fund investments. Please read the prospectus before investing. Mutual funds are not guaranteed, their values change frequently and past performance may not be repeated.

Mutual funds, stocks, bonds, GICs, and financial planning services are offered through Manulife Securities Incorporated.

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Our Current Allocation Outlook

Below is a chart of different asset classes and sector exposure with our current outlook compared to the normal North American weighting. Based on the economic outlook, we will want more or less than our normal exposure to each category. Each individual investor will have a different investment portfolio depending on their personal circumstances considering their: Risk Tolerance, Income requirements (both current and anticipated), Time Horizon, Taxation, and of course Temperament (investor behavior). We then look for opportunities to tax optimize the holdings based on which plans hold which investments. You should consult us to determine the ideal asset mix and asset selection given your circumstances.

		Underweight	Slightly Underweight	Neutral	Slightly Overweight	Overweight
FIXED INCOME						
Government	Long-term	●				
	Mid-term	●				
	Short-term	●				
Corporate	Investment Grade				●	
	High Yield				●	
	Floating Rate				●	
EQUITIES						
Canadian	Dividend Focused					●
	Large Cap				●	
	Small Cap			●		
US					●	
European			●			
Asia				●		
Emerging Markets			●			
	BRIC		●			

Sector		Underweight	Slightly Underweight	Neutral	Slightly Overweight	Overweight
Consumer Discretionary				●		
Consumer Staples					●	
Energy				●		
Financials	Banking			●		
	Insurance			●		
	Asset Managers		●			
	REITS		●			
Materials				NEW!	●	
Utilities			●			
Telecommunications				●		
Healthcare				●		
Industrials			●			
Information Technology					●	

Who is HOLISTIC WEALTH?

This is the trade name that the Summerland office of Manulife Securities Incorporated operates under. We call ourselves this as most traditional stock brokers and investment advisors do not take the same holistic wealth approach in working with clients. We prefer to take a financial planning approach when advising clients incorporating their debt, insurance and investment portfolios into consideration. We use solutions that people understand and avoid 'synthetic' investment products (such as hedge funds).

We currently advise clients throughout BC, Alberta and Ontario. We are still growing our practice and welcome new clients. If you or someone you feel would benefit from a confidential and complementary consultation, please contact our office.

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THANK YOU

We thank you for your incredible loyalty as a client. We strive to provide our best advice and service. We also continue to grow our business and want to thank those who have encouraged their families and friends to work with us. We continue to appreciate your introduction of us to anyone you believe would be a good fit within our financial planning and investment practice.