



## What happened in October?

- October was an exceptionally strong month for equities in Canada and the United States. Despite the political wrangling, posturing and news (good and bad) on both sides of the border, the four major North American indices surged forward.
  - It is almost ludicrous to say that the S&P 500 was the laggard after gaining more than 2% in October; however, the Dow and NASDAQ delivered significantly higher returns.
  - Even our market-index; the S&P/TSX returned 2 ½ points, and closed above 16,000.
- Some negative news did occur even if it felt ‘manufactured’. The negativity may have gathered more interest than usual since the 30-year anniversary of Black Monday was observed on October 19<sup>th</sup>. In 1987, the Dow closed with its largest single day loss, 23%, and the popular press drew parallels between today’s performance, and three decades ago.
  - Notwithstanding these negative news accounts, the equity markets powered ahead, reaching new historic highs.
- One of the largest news items that will affect the Canadian economy and our investment markets is the continued lack of progress on NAFTA negotiations.
  - The Americans have insisted that all future disputes be settled in U.S. courts, under U.S. laws, is an unacceptable condition for Canadians.
  - The supply-control system for agricultural products, particularly milk, is under threat as well.
- On a positive note, the Liberal government’s plan to update tax legislation affecting small business owners, family businesses (including farms), and professional corporations has been tempered following public consultation.
  - The final plan, and legislation, has not been written nor passed, but expect more balanced changes than originally proposed.
  - When a clearer picture of the proposed legislation and its effects emerges, those impacted should expect to consult with advisors for legal, accounting and investment matters to minimize tax under the new system.
  - Some of the tempering of Finance Minister Morneau’s initially proposed plan may be driven by two events.
    - Morneau did not fulfill his commitment to place his investment assets inside a blind-trust, which would allow him to govern without understanding the direct impact of changes on his personal financial situation. Essentially, the purpose of a blind trust in this situation is to prevent the appearance and the reality of a legislator and Cabinet Minister from benefiting from new law that is intended to benefit the country and



its citizens.

- A hack of a Bermudian law firm has shown that many around the world, including prominent Canadian families and firms (Bronfman, Weston, Suncor/ PetroCanada, etc) have utilized complicated offshore financial vehicles to minimize taxes. It is being referred to as the “Paradise Papers” since the information emanated from an exotic location. One organization who is red-faced over these revelations coming from Bermuda is the House of Windsor, further evidence that these schemes aren’t available for all!
  - Although no impropriety has been proven, the existence of these vehicles for the richest Canadians who can engage professionals, while low-income and middle-class Canadians cannot has reoriented some of the proposed legislation.
  - Additional details on the new taxes, and their effect will be shared once known.

(source: Bloomberg <https://www.bloomberg.com/markets>)

## What’s ahead for November and beyond?

- Expect more difficult negotiations regarding NAFTA. President Trump will continue to make proclamations and issue ultimatums on issues that will actually be discussed at the bargaining table. The schedule for topics places most of the thorny issues toward the final rounds, which allows some initial progress on smaller items. This encourages agreement on the larger issues, since no one wants to destroy progress that has been achieved
- Monetary policy, specifically interest rates, in Canada and the U.S. will be closely watched. The rates were unchanged by the Federal Reserve in October, and most analysts believe that a December rise is likely.
  - Stephen Poloz, the Governor of the Bank of Canada, has maintained a very independent stance for our benefit. However, he cannot resist forever, and will eventually succumb to pressure from the U.S. and follow along if U.S. rates rise.

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