SEAMARK

THE LATEST

INSIDE

INVESTMENT TEAM

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CIO Commentary / Q3 2017

Uncharted waters?

From time to time, investment markets cry out to their observers. Those calls usually fall on deaf ears, at least for a while. But eventually, inevitably, investors end up asking why they didn't hear the calls, when all the evidence was right in front of them.

Trouble is, no market practitioner can time these things effectively. A few will, but that can be attributable to luck of the draw. I say luck because markets choose to correct on their own terms. It could never be as easy as applying a standard economic metric, or finding a specific financial ratio to be hailed as a definitive market warning signal. In fact, what makes the whole exercise fascinating, is the shroud of fog that the market can cast over its followers. It happens both in up markets, and in down markets. Probably because investors are notoriously affected by two opposing emotions - greed and fear.

In a long-rising market, investors will see some warning signs, but the market often plays tricks on them, luring participants deeper and deeper into the belief that it is ok to ignore the signs that might normally raise question marks. One after another, the market shrugs off news, or events, that in prior periods might have caused share prices to decline. Investors are lulled into a false sense of security, believing that something must be different this time, lending credence to the belief that the old signals have lost their validity. Each time the market chooses to ignore another yellow flag, it only serves to further comfort investors, that it is different this time…but is it? Just like the tides, investor sentiment is destined to ebb and flow.

We should take a sober look at the messages being telegraphed by today's investing environment:

- The good news is that the world's economies are showing some underlying growth. That growth becomes a tonic for rising corporate earnings.
- However, against this improved outlook for growth, many Central Banks have turned more hawkish, signaling the beginning of the end for 'emergency' cheap money. That is a dramatic change from their modus operandi of the last ten years. They haven't reached a point of outright tightening, but a normalization of rates is now underway. The end of loose money can be a temporary shock to markets.
- Asset values across the board are priced toward the high end. That is a function of an 8-year run in the equity bull market, and a 35-year decline in interest rates. Perhaps asset values are not dangerously high, but they are certainly stretched. Against this background, one could argue that pension monies and private equity have been stretching for yield through their purchases of less liquid assets. That is a phenomenon that has ended badly in previous market cycles.
- The relentless advance of share prices in the U.S. is being driven by an ever-narrower group of stocks. Technology names have been the star performers in 2017, driven predominantly by a few of the largest capitalization companies. Technology makes up more than 20% of the S&P 500 Index. The top five companies in the S&P 500 are now equal to the capitalization of the smallest 250 companies that comprise that index. Top heavy, narrow markets have led to sharp corrections in past cycles.
- The proliferation of Exchange Traded Funds has only served to accentuate the performance of the largest companies. So far, this has been a one-way street, with indexes making successive new highs. We are asset managers that pay attention to valuations, so it concerns us that ETF buyers are not as discerning as to what they are buying, or what they are paying for. Many ETFs contain derivatives that help the product mirror an underlying index. A liquidation of ETFs could result in a disorderly unwinding of many ETF products. Finding the liquidity to do so could produce a case of indigestion for the markets.

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… CIO Commentary continued

- Politics in Washington have been even more dysfunctional than usual. The Republican led Congress, Senate and Executive Branch have not been able to agree on how to execute any broad policy initiatives. The President, apparently the only one comfortable with the level of chaos in the White House, is broadly disrespected outside of his base, and continues to lose key people around him.
- Given the political backdrop in the U.S., corporate tax reform, which the market is betting heavily on, may turn out to be a disappointment.
- Globalization is clearly now on the back burner. The President questions the value of Free Trade Agreements as important as NAFTA. And recently, BREXIT negotiations have reached an impasse. Economic insulation has proven to be anti-growth in the past.
- Janet Yellen's term as Chair of the U.S. Federal reserve is up for renewal in 2018. The Fed-centric market is at least comfortable with the job Yellen has done in her post. A new appointee, if Trump should go that route, will be an unknown for the market.
- On other fronts, we watch an escalating war of words with a nuclearized North Korea, and hear threats of tearing up the nuclear deal with Iran. Social media has been duped by foreign influence, intent on sowing social discontent in a U.S. electorate that already suffers deep fissures. And here at home, we continue to receive warnings from international economic agencies that we are swimming in too much household debt in Canada.
- With all of that, just when one would think that the measure of the market's expected volatility should be rising, look again - it is falling. The VIX (an indicator of expected volatility for the S&P 500), has been at or below the 10 level for most of the last year, showing a great deal of complacency. The VIX is often measured to be in the 40 range during market corrections, and reached into the 80's during the bear market of 2008/9.

What does all of this mean for portfolio management?

SEAMARK portfolios are earning modest rates of returns this year, but not up to comparison to those market indexes that are dominated by technology, small cap or emerging market equities. The significant rise in the Canadian dollar as at September 30th has also diminished the value of U.S. dollar denominated assets held in portfolios. Although the low level of the VIX may have benefitted investors seeking "risk-on" investment positioning, that is inconsistent with the risk management hat we wear on behalf of institutional and individual clients. We accept that our management style will not be on top at every phase of the market cycle. With all the warning signs that are flashing, we're comfortably defensive, tilted toward a broad mix of risk-off companies, even though they may be temporarily out of favour. Cash is once again playing a more prominent role in our portfolios, providing a cushion, and the liquidity to take advantage of lower prices in the event of a market correction that seems to be overdue.

Sincerely,

Robert G. McKim

Robert G. McKim, CFA | Chief Investment Officer

SEAMARK Pooled Fund Investor Opportunity

As we draw to the close of another year, SEAMARK is pleased to offer a one-time savings of 25 basis points on new capital contributed to our Pooled Funds (15 basis points for Canadian Bond), provided that the money is received by the Pool before year-end. The saving would equate to $2,500 per $1 million ($1,500 on bonds) and will be deducted from investment management fees in 2018.

Timing is a critical factor in this offer. Please act at your earliest convenience to ensure that amounts are transferred or contributed to any of the SEAMARK Pooled Funds by December 29.

For more information, please contact a SEAMARK Portfolio Manager at: information@seamark.ca.

2016 Pooled Fund Capital Gains Tax Deferrals

	Tax Loss Carry Forwards*
SEAMARK Pooled U.S. Equity Fund	$ 22,058,047
SEAMARK Pooled Total Equity Fund	$ 17,700,378
SEAMARK Pooled Low Volatility Equity Fund	$ 4,933,560
SEAMARK Pooled Canadian Equity Fund	$ 4,999,362

*Audited Financial Statements, as at December 31, 2016

Some of these tax loss deferrals are significant compared to the assets in the respective Pools.

Please contact Tyrone Saunders for more information.
902-423-6954 tsaunders@seamark.ca

Composite Performance Update[1]

	One Quarter	Six Months	Nine Months	One Year	Two Years	Five Years	Inception Returns	Inception Date
SEAMARK Balanced Composite	**0.08 %**	**-0.88 %**	**1.86 %**	**4.79 %**	**7.70 %**	**9.60 %**	**7.99 %**	**12/31/2009**
Balanced Benchmark*	0.59 %	0.92 %	3.65 %	4.61 %	6.95 %	7.85 %	7.12 %	
SEAMARK Canadian Equity Composite	**1.82 %**	**0.10 %**	**1.64 %**	**6.91 %**	**10.72 %**	**9.33 %**	**7.71 %**	**01/31/2011**
S&P/TSX Composite Index	3.68 %	1.99 %	4.45 %	9.18 %	11.66 %	8.06 %	5.22 %	
SEAMARK Low Volatility Equity Composite	**-0.21 %**	**0.24 %**	**3.52 %**	**4.43 %**	**10.42 %**	**12.47 %**	**11.08 %**	**12/31/2010**
S&P/TSX Composite Index	3.68 %	1.99 %	4.45 %	9.18 %	11.66 %	8.06 %	5.30 %	
SEAMARK Fixed Income Composite	**-1.20 %**	**-0.60 %**	**0.81 %**	**-2.31 %**	**1.68 %**	**2.53 %**	**2.95 %**	**04/30/2012**
FTSE TMX Canada Universe Bond Index	-1.84 %	-0.75 %	0.48 %	-2.97 %	1.56 %	2.66 %	3.08 %	
SEAMARK U.S. Equity Composite	**-0.59 %**	**-3.64 %**	**-0.94 %**	**8.74 %**	**11.59 %**	**16.37 %**	**15.65 %**	**04/30/2012**
S&P 500 Index (CAD)	0.48 %	0.89 %	6.19 %	12.85 %	12.94 %	19.79 %	18.90 %	
SEAMARK Total Equity Composite	**0.72 %**	**-1.05 %**	**2.20 %**	**7.06 %**	**10.68 %**	**13.19 %**	**13.36 %**	**09/30/2011**
Total Equity Benchmark**	2.22 %	2.10 %	6.24 %	11.26 %	11.91 %	13.13 %	13.25 %	

*5% FTSE TMX 91 Day T-Bill Index, 40% FTSE TMX Canada Universe Bond Index, 30% S&P/TSX Composite Index, 25% MSCI World (ex-Canada) Index
**50% S&P/TSX Composite Index, 35% S&P 500 Index, 15% MSCI EAFE Index

Links to Q3 2017 Pooled Fund Profiles

Balanced   Canadian Equity   Low Volatility Equity   Canadian Bond   U.S. Equity   Total Equity

Stay in Touch!

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SEAMARK ASSET MANAGEMENT LTD.

[1]Performance data is calculated on an actual basis for periods of less than one year, and on an annualized basis for periods of one or more years. Performance data assumes the reinvestment of all distributions and does not take into account management fees or income taxed (except for withholding tax, if any, on foreign income) payable by any unitholder that would have reduced returns. Past performance is not necessarily indicative of future returns. In CA$. For GIPS® presentation please email information@seamark.ca