

# INCREASE YOUR FUTURE WEALTH POTENTIAL

J ZECHNER ASSOCIATES BALANCED FUND



PORTFOLIO MANAGERS: JOHN ZECHNER MA, CFA, DAX LETHAM MBA, CFA, CMA

Markets moved higher in the 3<sup>rd</sup> quarter as the S&P/TSX stock index in Canada gained 2.47% on strength in the financial, gold and real estate sectors. Those gains were muted by weakness in energy, base metal, health care and small cap stocks. Bond prices had their most volatile period of the year as yields rose sharply on optimism about a recovery in growth and US/China trade deal but dropped back again as weaker data was released in China, Europe and the U.S. In the end, bond prices advanced further in the second quarter as central bankers in the U.S., Canada and Europe gave much softer comments on interest rate trends and economic data continued to worsen. The FTSE Canadian Bond Index in Canada was up 1.2% in the quarter with long-term bonds rising 2.5%. Credit spreads were unchanged, so no benefit was achieved by holding corporate bonds.

The asset mix of the Balanced Fund at quarter-end continued to reflect our cautious outlook with cash at 9.3% and fixed income 23.7%, Preferred shares were reduced to 12.1% due to credit concerns but are still giving income yields of over 6%. Canadian stock weight was up slightly to 33.5%, but U.S. stocks were raised back up to 12.6% as we added core value names such as Fedex, 3M, IBM and Boeing. While slowing global growth will continue to weigh on the cyclical sectors of the market, we do expect to see a peaking in the value of the U.S. dollar due to continued massive borrowing needs and slowing growth. This could help to form a bottom for many of the commodity sectors as it has done for gold stocks. We remain cautious on the financial sector due to continued downward pressure on interest rate margins and minimal loan growth. With preferred share yields now over 6% and all of our holdings in extremely safe utility, pipeline and other investment grade holdings, we still see the risk-reward for that asset class as very favourable. We also continue to 'high-grade' the stock holdings in the portfolio due to overall market risk and the need for liquidity. One factor supporting stocks in the short term are the strong positive money flows in many of the large cap and growth sectors due to asset re-allocations and the continued trend towards passive investments. The return to record low interest rates continue to support somewhat higher stock valuations, particularly for the defensive sectors of the market where we have been adding to reasonably priced names in 'recession resistant' sectors such as Enbridge, Rogers Communications, Telus Corp, Shaw and Quebecor Inc.

The 'big picture' assessment is that economic data continues to deteriorate in almost all regions of the world, and we expect it will weaken further. While a debate remains as to whether this will end in a full-blown recession or only a 'mid-cycle slowdown' (like in 2015-16 and 2011-12), there should be little debate as to that the data has been deteriorating and we are very late in the economic cycle that began in 2009. Stocks do tend to experience very sharp declines once a recession occurs, even if interest rates are at low levels and/or falling. Mid-cycle slowdowns don't always end in bear markets, they do when we are at the end of the cycle, which is the key risk. While we still expect profit estimates will have to be reduced further and generally see the risk-reward trade-off as being unfavourable for stocks, we can't ignore the strong positive money flows and understand that there are some factors that may limit the risk in stocks in some sectors. Also, record low interest rates should continue to support somewhat higher stock valuations, particularly for the defensive sectors of the market such as utilities, telecom and communications services sector. Also, investor sentiment surveys remain notably more bearish. Such factors are often positive contrarian signals for stocks and create strong stock support mechanisms. But reduced stock buybacks, more geo-political risk and falling earnings present a larger risk to stocks, in our view and support our continued cautious strategy.

| 30 <sup>th</sup> -September-2019     | INVESTMENT RETURNS |        |        |         |
|--------------------------------------|--------------------|--------|--------|---------|
|                                      | Quarter            | 1 year | 3 year | 10 year |
| JZ Pooled Balanced Fund <sup>1</sup> | -0.13%             | -7.55% | -2.02% | +1.73%  |
| Balanced Benchmark <sup>2</sup>      | +1.67%             | +7.03% | +6.51% | +8.34%  |

Notes:  
1. Returns for the current periods are NET (i.e. AFTER Management Fees).  
2. Benchmark Index is Fundata Tactical Balanced Index.

Management Fee 1.5%

Past performance is not indicative of future results.

## Categorization: Canadian Equity Balanced

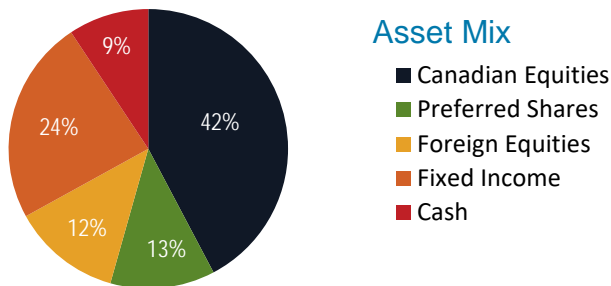
The Fund has been categorized according to the Canadian Investment Funds Standards Committee criteria.

## Fund Objective: Long-Term Growth and Income

The Fund seeks to provide capital preservation, income generation and long-term capital growth through investment in a diversified portfolio of Canadian and foreign securities. The objective of the Fund is to provide consistent above average performance commensurate with a controlled degree of risk. The Fund is suitable for investors who are looking for an actively managed balanced portfolio with a reasonable degree of risk.

## Investment Strategy: Top-Down Global Macro

The Fund Manager monitors global financial data in order to add value at three levels; Asset Allocation, Sector Rotation and Security Selection. For equities, the Manager looks for publicly traded growth stocks which are reasonably priced relative to their prospects for earnings and cash flow. For the fixed income portion of the Fund, investment strategies are used which analyze interest rates, the yield curve and sector valuations in the bond market. The allocation between stocks and bonds is actively managed between 25% and 75% of the Fund's assets for each, depending on economic and market factors and relative asset class valuations.



## Top 5 Holdings:

| Common Stocks                                |       |
|----------------------------------------------|-------|
| Martinrea International Inc.                 | 2.20% |
| Vaneck Vectors ETF Gold Miners ETF           | 1.93% |
| Baytex Energy                                | 1.80% |
| Rogers Communications CI B                   | 1.77% |
| Teck Resources                               | 1.75% |
| Bonds                                        |       |
| NBC Asset Trust 7.447%, June 30, 2020        | 3.85% |
| Canada RRB 4.25%, December 1, 2026           | 3.36% |
| Federated Co-operatives 3.917% June 17, 2025 | 3.30% |
| Ontario Power Generation 3.315% Oct. 4, 2027 | 3.14% |
| Telus Corporation 4.40%, January 29, 2046    | 3.11% |

(as of September 30<sup>th</sup>, 2019)

## Benefits of our Pooled Funds

The J Zechner Associates Pooled Funds offer professional money management, varied investment choices, the potential for above average returns and lower management fees so you keep more of your accumulated wealth.

A pooled fund is a unit trust that operates like a mutual fund but is not required to have a prospectus under securities law. A pooled fund is sold through an Offering Memorandum.

J Zechner Pooled Funds are available only to Canadian investors and require a minimum investment of \$150,000; unless the investor is an Accredited Investor. Units of the Funds are qualified investments for certain registered plans.

## Solid Partnership Foundation

Our Pooled Funds are held at CIBC Mellon, who acts as Trustee, Custodian, Valuation Agent and Unitholder Recordkeeper provider. Our commitment to integrity is behind our decision to partner with a leading Canadian custodian, reassuring our clients that their funds are safe and secure. Like J. Zechner Associates, CIBC Mellon is firmly committed to integrity, client service and exceptional results.

## Eligibility for Investment

The Fund will only invest in securities that will be qualified investments under the Income Tax Act (Canada) for a trust governed by a registered retirement savings plan (an "RRSP"), registered retirement income fund (a "RRIF), or tax-free savings account (a "TFSA").

## For more information please contact:

David Cohen, President  
Tel 416-867-8649  
dcohen@jzechner.com

John Zechner, Chairman and Founder  
Tel 416-867-8993  
jzechner@jzechner.com

Toll free 1-866-259-6482