

# INCREASE YOUR FUTURE WEALTH POTENTIAL

J ZECHNER ASSOCIATES BALANCED FUND



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

The value of the JZA Balanced Fund fell very slightly in the 3<sup>rd</sup> quarter of 2018 as the S&P/TSX Index in Canada and the FTSE Bond Index fell 0.6% and 1.0%, respectively. The defensive positioning of the Fund's portfolio and the positive impact of U.S. stock holdings kept the decline below that of the overall markets, but clearly the foreign holdings continue to account for all the upside. The Canadian stock market fell 0.5% in the quarter as energy and other resource sectors continued to drift lower.

U.S. stocks continued their uptrend in the 3<sup>rd</sup> quarter, while other global markets deteriorated. The S&P500 rose 7.2%, its best quarterly gain since 2013, with Health care the best-performing sector, surging 14%. Industrials and technology, meanwhile, each rose over 8.5%. Second quarter earnings rose 25% on a year-over-year basis, with 77.6% of companies topping analyst expectations, FactSet data show. While U.S. stock returns in 2018 have been exceptional, the case is not the same elsewhere. Japanese stocks have risen this year, but Chinese stocks have dropped 15%, German stocks are down 5%, overall Europe is 3% lower and the Emerging Markets Indices have dropped almost 10%.

Given our oft-repeated cautious outlook for financial markets, we continue to have an overweight position in cash, short-term bonds and preferred shares and an underweight position in both Canadian and U.S. stocks. Sectors we continue to favour in the stock market due to their inherently low valuations and growth potential include the energy stocks in Canada and large banks and technology stocks in the U.S. market. We are also expecting weakness in the U.S. dollar as growth peaks and therefore looking to slightly increase our exposure to gold stocks as a hedge against a weaker dollar. While we continue to see exceptional value in the Canadian resource sector, the group has suffered from negative capital flows as investors chase the hot returns of the U.S. technology sector. That trend cannot continue indefinitely, and we continue to reduce positions in longer-term U.S. growth stocks such as Apple, Alphabet, Microsoft and Disney due to excessive valuations.

The asset mix of the Fund at quarter-end reflected our cautious outlook with cash at 26.5%, fixed income 24.2%, preferred shares 16.3%, Canadian stocks at 24.9% and U.S. stocks at 8.1%.

On strategy, we are very late in the current economic cycle and interest rates are starting to increase. Emerging markets stocks have already entered a bear market and global currency volatility suggests more risks ahead. We believe that global economic and profit growth will peak for this cycle in 2018. Leading economic indicators from the industrialized (OECD) countries have already started to roll over. Record global debt levels and rising interest rates will lead to retrenchment in consumer, business and government spending that will limit expansion. Profit margins are also expected to peak this year as rising input costs (wages, basic materials) offset cost restructuring. While the U.S. tax cuts will lead to double-digit profit gains this year, those cuts are one-time in nature and the impact is now at its peak level. Given the 'push-pull' impact on stocks of strong economic data vs 'stretched valuations and excessively optimistic sentiment, the strategy is to stay in larger, liquid stocks that have strong valuation support and less earnings risk. The Fund is overweight cyclical/resource stocks which have stronger earnings momentum, lower valuations and less sensitivity to rising interest rates. The Fund has no holdings in interest-sensitive sectors such as consumer staples and most telecom stocks.

30 <sup>th</sup> September -2018	INVESTMENT RETURNS			
	Quarter	1 year	3 year	5 year
<b>JZ Pooled Balanced Fund<sup>1</sup></b>	-0.63%	+1.23%	+3.70%	+2.85%
Balanced Benchmark <sup>2</sup>	-0.79%	+4.07%	+6.03%	+5.84%

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

Management Fee 1.5%

Past performance is not indicative of future results.

## Categorization: Canadian Equity Balanced

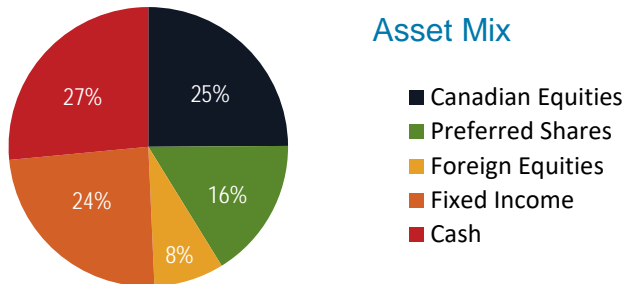
The Fund has been categorized according to the Canadian Investment Funds Standards Committee criteria.

## 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	
Citigroup Inc.	1.81%
Maxar Technologies	1.80%
Crescent Point Energy	1.63%
International Business Machines	1.62%
Alphabet Inc. Class C	1.60%
Bonds	
NBC Asset Trust 7.447%, June 30, 2020	3.55%
Canada RRB 4.25%, December 1, 2026	2.96%
Federated Co-operatives 3.917% June 17, 2025	2.79%
National Bank 3.183%, 1-Feb-2028/23	2.61%
Telus Corporation 4.40%, January 29, 2046	2.49%

(as of September 30<sup>th</sup>, 2018)

## 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:

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