



OUR MISSION:

To enable each client to tolerate the vagaries and reap the rewards of the investment markets, and ultimately realize their unique investment objectives through:

- staying true to our sound & rational investment principles
- providing complete transparency in all that we do
- excelling at service and communication

OUR FIRM'S COMMITMENT TO STAKEHOLDERS:

- remaining independent, flexible and objective
- continually re-investing in our business
- providing innovative investment solutions
- never forgetting that it is a privilege to be entrusted with the management of the assets of our clients – and to never jeopardize this trust in any way

No News is Good News

In the course of creating these client letters the Investment Committee will often sit together to discuss the important events of the last quarter, dissecting and weighing events big and small to see what we might learn. This time felt different though, as the third quarter of 2016 was a fairly uneventful one. There were no large market implicating crises, there were no booms or busts. The third quarter tends to be the slowest one of the year; this one was one of the slowest in recent memory.

We entered the third quarter with the shocking news that the map of economic Europe was soon to be re-drawn as a result of the “Brexit” vote. With Britons voting to leave the European Union, many wondered what kind of future there was for the other members of the Union, and what lay ahead for the United Kingdom as a result of their economic succession. The results of the election were somewhat unexpected and certainly profound. In reaction stock markets roiled and in particular the share prices of United Kingdom based companies slumped. July started with European stocks volatile and prices choppy but by the end of September the FTSE 100 had risen by 6.1%, the German DAX added 8.6%, France and Spain’s markets added 5.0% and 7.5% respectively. Europe was not ending after all, it was going on, and so too were the hundreds of corporations that call it home.

The second major talking point of the quarter surrounded the United States Federal Reserve’s veiled threat to slowly move interest rates higher. The Federal Reserve is committed to the eventual hiking of their overnight lending rate. This key rate, the one at which the largest banks could borrow from the Federal Reserve, had been taken all the way down to zero in 2008. At a zero cost to borrow the Fed had made borrowing American money as cheap as it could possibly be. The expectation has always been that the Federal Reserve will normalize rates when they believe it to be both possible and in the interests of the American economy. The first, and so far only time (?) rates were moved was in September of 2015; the Federal Reserve proceeded gingerly, moving the rate from 0.0% to 0.25% that time around. It certainly looked like another quarter-point hike was in the offing for this September, leaving many to wonder if investors would shift from equities to debt or would they flee the bond market for fear of temporary capital loss? Or, yet again, would the market shrug off the news? With every data point the machines of the print and television go into overdrive, the discussion begins. What could some short-term number like housing starts or an unemployment number mean for the plans of the Fed? Eventually the Federal Reserve will take rates higher, but so far they have seen fit not too. Business continues as usual in America, money remains incredibly cheap, the overnight rate stands at a quarter point, and the November 8th election all but guarantees no action from the Federal Reserve at their next set of meetings on November 1st and 2nd.

Which brings us around to nothing. We have nothing to write about in this quarterly letter except the increased market volatility surrounding events that people thought might happen. That very same volatility that arose around SARS in 2003, the rollover of Y2K in on December 31st 1999, the Debt Ceiling debate of 2009, changes in income trust legislation in 2006, the whisper of hiked Capital Gains taxes in the Liberal budget this year. Tax inversions, possible Greek bankruptcy, actual Venezuelan bankruptcy, the Flash Crash. So what happens when nothing happens? A great deal as it happens.

In the last ninety days the big six Canadian banks earned several billion dollars in aggregate, paid an average dividend of 1.1% for this quarter and declared another for the next. The big three Telecom companies paid dividends, most Real Estate Investment Trusts paid one each month. Oil and gas companies were three months further into their cost-cutting or capital-raising, which put them three months farther along in their rebound from 2014’s collapse in energy pricing. In the last ninety days the S&P/TSX added just over 3%.



**OUR
INVESTMENT
PRINCIPLES**

To systematically construct diversified portfolios of quality stocks and bonds to enhance client wealth over time.

Through our systematic processes and experienced judgment, we seek out companies which have good growth prospects and are attractively priced within the marketplace. We strive for stability, sustainability and predictability.

For a balanced portfolio, bonds represent the component that provides certainty. We include solid credits with the intention of holding them to maturity. We constantly monitor these issues for their ability to meet their obligations.

America now is staring into the headwinds of what may be a hotly contested Presidential ballot. This election has probably tempered investment activity, in particular mergers and acquisitions, prompting this summer's slowness. As businesses look out six months to a new President, a new Congress, and a new

Senate, they will need to figure out what each candidate winning might mean for their industry. While an American election campaign certainly does not qualify as nothing happening, there is a chill on business investment in the interim; the schism between the policies of Trump and Clinton make for great television fodder but they only serve to cloud the future. More nothing is likely to happen, and nothing happening has been good for investors - in the third quarter the S&P 500 added 3.3% plus dividends.

In the absence of actual news investors have decided to incrementally increase the risks in their portfolio. Emerging markets, as measured by the MSCI Emerging Markets Index, returned over 9% in the quarter in US dollar terms. High yield bonds, as measured by the iBoxx USD Liquid High Yield Index, added more than 5%, reflecting the ongoing balance sheet repairs in the energy sector. Markets considered to be higher risk all showed positive returns during this quiet period. India's stock market index added 3.9%, the Hong Kong Hang Seng added 12%, while Brazil charged ahead 13.3%.

Long-term investment gains require more patience than a single quarter. Naturally investors will quickly put the third quarter of 2016 in their rear view mirror and look out to the horizon for news. A presidential election still stands in front of us, Quantitative Easing needs to be unwound, interest rates and Central Bank policies will need to be carefully managed. No doubt there are events to come which investors have not fully accounted for. But how many of them warrant actual worry? The answer is remarkably few.

Thinking back on the fomented angst surrounding any of the issues we were told to worry about, surely some had merit. The answer of course depends on when you started investing. Oil shocks in the 1970's, extreme interest rates in the 1980's, the tech wreck in the late 1990's, the housing crash in the 2000's. Disruptive in the short term, to be sure, but actually each burst bubble or market sell-off only represented an opportunity to reallocate from bonds to stocks or stocks to bonds.

There will always be an event on the horizon, such is the course of human history. Economies, corporations, and share prices always push forward. As we look backwards over all the worries we have climbed over in the last year, cycle, or decade, we quickly wonder what the fuss was in the first place. No news was good news in the third quarter of 2016. It turns out that most news is no news, the less attention we pay to external forces and the more we pay to our own portfolios the better.

Guardian Capital Advisors Investment Committee

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