



Jack Way
Vice President

“By The Way”

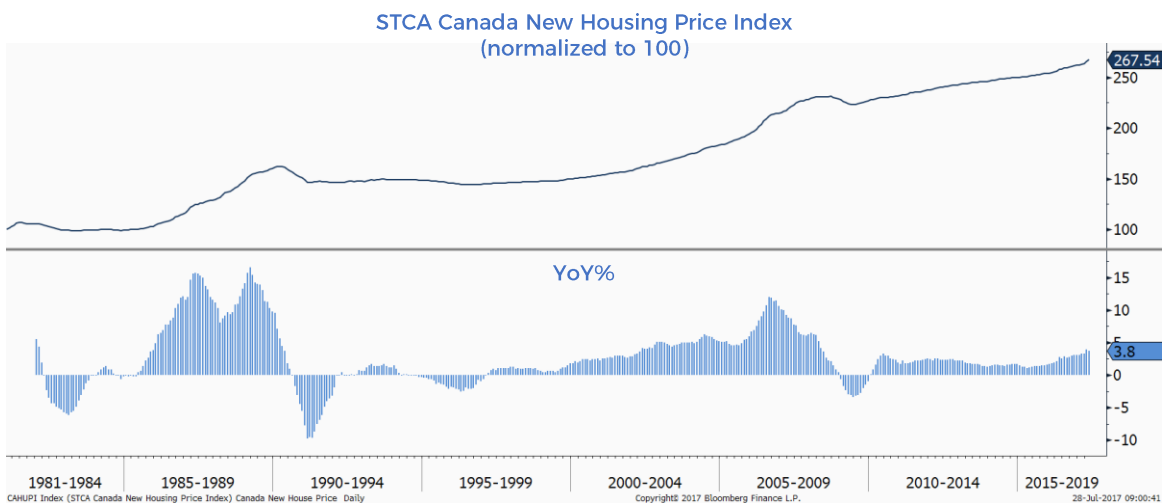
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New highs! The S&P 500, Russell 2000, Dow and Dow Transports, (that’s a Dow theory buy signal by the way), have all made new highs, yet almost all the commentary I read focuses on the reasons the market is overvalued (including I might add my own most recent letter). The concerns expressed are mostly well-reasoned and rational, but are contradicted by the continuing strength of the market. It seems to me that we are nearing an inflection point where either the bull or bear case will prevail. I believe the matter will be resolved when there is a clearer picture of economic and earnings growth globally, and in particular in the U.S. There is a “Goldilocks” theory that believes a slow but steady increase in GDP and inflation, much as we have experienced recently, is sufficient to support higher stock markets. While I appreciate that hypothesis, I would feel much more comfortable if some of the Trump proposals with regard to tax reform and fiscal stimulus actually come to fruition. Given the gridlock we are witnessing in Washington, confidence in a positive outcome is difficult to maintain. Time is of the essence if we are to see legislation passed this year that will have a positive economic impact in 2018. Unfortunately, we have three big issues to be dealt with in a short space of time; healthcare reform (the Republicans had to drag John McCain, an 80 year old with brain cancer, out of the hospital and across the country just to pass a bill that only allowed debate on healthcare to begin); a debt ceiling increase and budget resolution; and tax reform. Volumes could be written about the behind-the-scenes bargaining in Congress, but here is one of my current favorites: Republican leadership is thinking of attaching the debt ceiling and budget bill to a popular bill that provides healthcare to veterans, in order to make passage easier than if brought to a vote on its own. The Trump administration’s lack of leadership, weak approval rating and numerous distractions are certainly not helping move matters forward, and are indeed counterproductive. We watch in awe, and hope for the best.

Unfortunately, central bank policies have once again become a significant factor causing short term market volatility. Every meeting, every speech, every press conference is scrutinized and dissected for any nuance that would suggest the direction of policy. And it’s not just the Fed, but the European Central Bank, The Bank of England, The Bank of Japan and The People’s Bank of China also come under the microscope. In my opinion, this is a poor usage of time and energy. Let’s accept the fact that we have passed the point of maximum monetary stimulus. Central banks are still being accommodative, but the longer-term direction is now toward less stimulation. It will happen in fits and starts, but barring significant economic weakness (which we certainly don’t want to see) policy will be gradually

more restrictive. We should ignore the short-term unpredictability, and accept that the huge injections of liquidity we experienced post the 2008 crisis are things of the past.

Closer to home, there is no doubt housing prices were out of control in Canada, particularly in Toronto and Vancouver, and that the amount of household debt is what could be described as excessive. However, we now have every level of government, banks, myriad institutions, and regulations all piling on to correct the perceived problem. In addition the Bank of Canada raised its regulated interest rate with a consequent effect on mortgage rates. As the old saying goes, "The cure can often be worse than the disease". One doesn't need a long memory to recall what a collapse in the housing market did to the U.S. economy less than a decade ago. I am sincerely concerned that those in power are not paying sufficient attention to possible "unintended consequences" if their new rules lead to a debt crises for individual home owners and trigger a serious decline in financial markets and the overall economy.



Enough of my ranting, it remains a bull market. We will proceed accordingly, until otherwise informed.

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