February 1, 2017

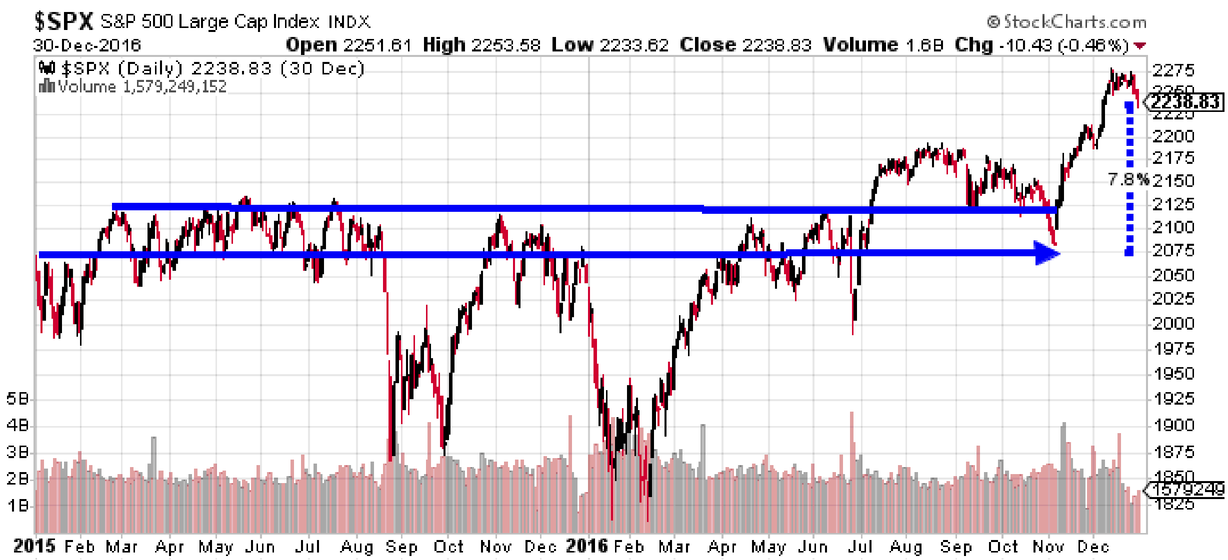
2016 Year-End Market Commentary

2016 was a year like a good suspense film, full of plot twists, unexpected events, with alternating emotions of joy and anguish. While the broad stock market indexes in North America as measured by the S&P500 for the United States and the S&P/TSX Composite for Canada, provided positive and attractive returns, the path to those results was very uneven to say the least. Some of the Counsel strategic portfolios did not fully participate in these results, but with very good reason. To gain a better understanding of what happened in 2016, investors must take a broader perspective by looking back over the last two full years, and not view 2016 in isolation.

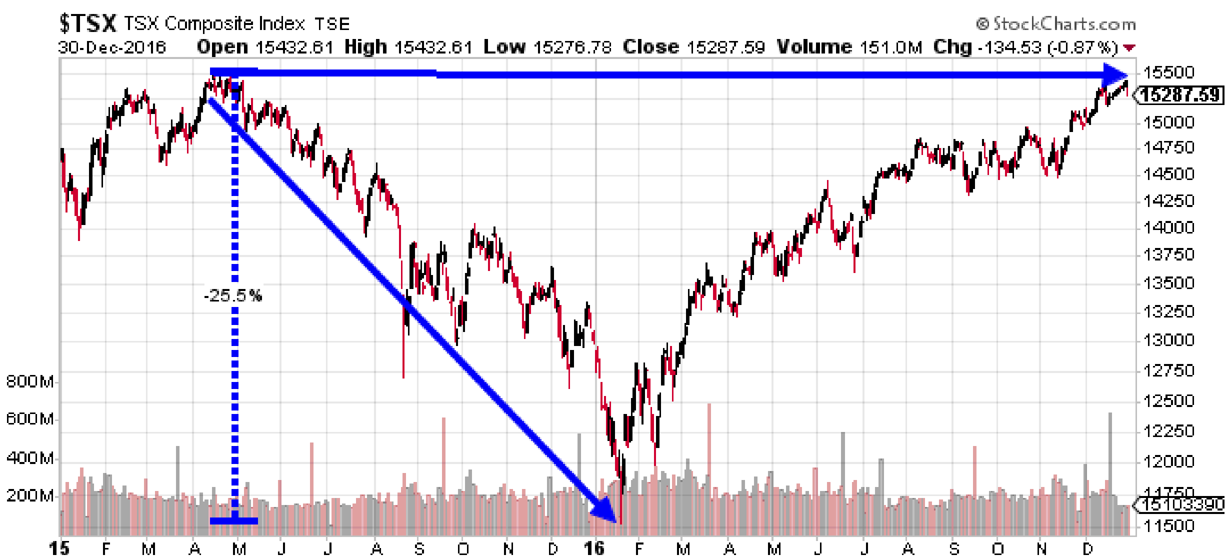
Coming into this period, there were major concerns for investors. Tops on their list was declining corporate profits, the ultimate driver of stock prices. Corporate earnings had been weakening for most of 2015 and most of 2016. Commodity prices led by weakening oil prices, had also been reflecting disinflationary global economic conditions. Economies of the developed nations of Europe and Asia have been mired in economic stagnation over the last few years with rising unemployment and over-indebted government finances. Here in North America, the economic recovery has been anaemic but stronger than most of the world. In addition, the technical condition of the global stock markets had been deteriorating beneath the surface, while the stock indexes experienced alternating bouts of strength then weakness.

Collectively, these conditions warranted a more defensive posture in our portfolio allocation strategies.

As demonstrated in the charts below, from the beginning of 2015 until the end of 2016, North American stock markets were essentially unchanged in value, with the exception of the last 2 months of 2016 in the United States. While the modest returns of the Canadian market accrued in the first few months of 2015, before a dramatic decline, followed by a dramatic recovery, brought levels back to where they were in early May, 2015.

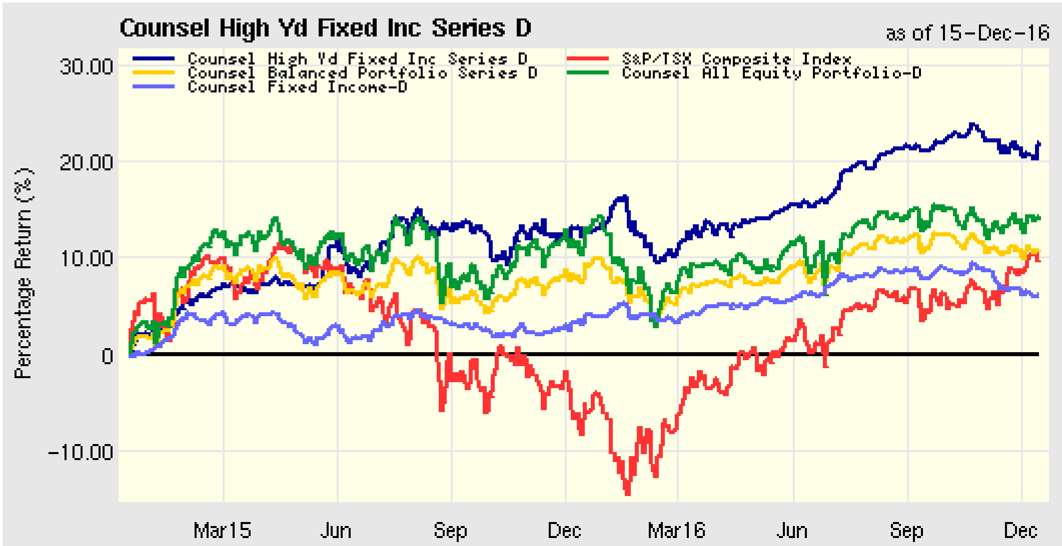


Source: stockcharts.com; 2-years ending December 30, 2016.



Source: stockcharts.com; 2 years ending December 30, 2016.

When viewed within the context of the last 2 years ending December 15, 2016, Counsel strategic portfolios performed very well:

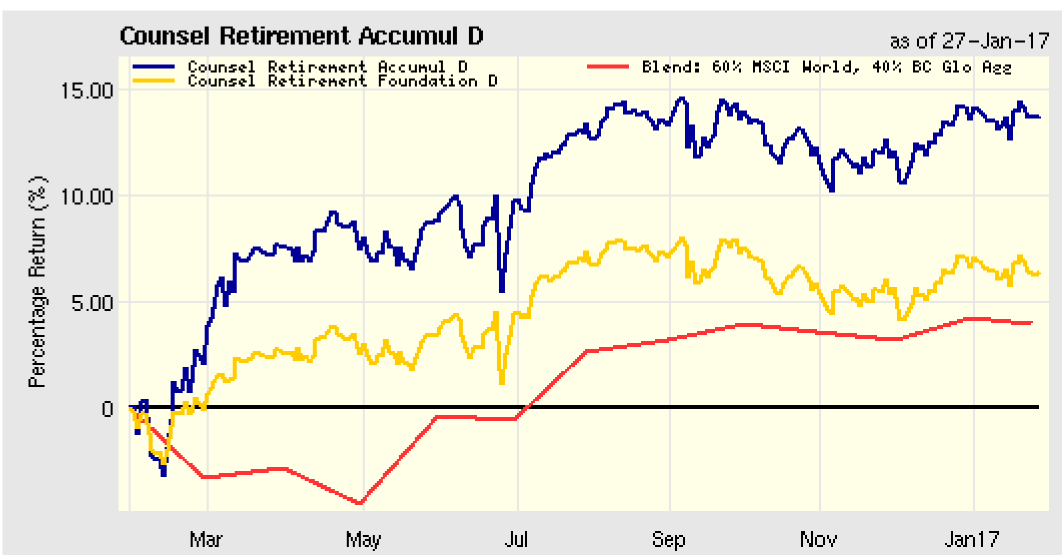


Source: globeadvisor.com

The Counsel High Yield Fixed Income Fund was especially strong during this period.

What is exciting to report for 2016 was the introduction of the tactically-oriented Counsel Retirement Portfolios that have the ability to reduce exposure to the stock market when conditions warrant. Using a rules-based process, components of these new portfolios will adjust stock market exposure accordingly.

As can be seen by the graph below, the retirement portfolios had exceptional results for the one-year ending January 27, 2017.



Source: Globeadvisor.com

What 30 years of professional experience has taught me is that there is no such thing as 'the best' mutual fund or investment. Has anybody heard anything about the venerable 'Industrial Growth Fund' lately? Portfolio managers come and go, asset classes come into and out of favour, and market conditions change. Once such change has been the 34-year bull market for bonds which began when interest rates peaked in 1982. During this period of declining interest rates, portfolios tilted toward bonds, provided excellent risk-adjusted returns.

We may now be at a point of inflection in economic history as interest rates appear to be possibly beginning a long, albeit gradual, climb upward. This will reduce the contribution to investment returns from the bond component of investment portfolios although the risk-mitigation aspect of bonds should still prevail.

The election of Donald Trump appears to have been a watershed point in modern geopolitical and economic history, perhaps similar to that of the election of Reagan and Thatcher in the U.S. and Britain respectively around 1980 following a period of economic malaise in both countries.

While the bombastic nature of Donald Trump has many in media circles rolling their eyes and grappling for political correctness, many citizens in the United States and elsewhere welcome his combative approach to try and reinvigorate the U.S. and, by proxy, the global economy.

Whether or not he will succeed in his ambitious agenda remains to be seen. What we do know is that the forthcoming Presidential term will be quite interesting.

While returns in 2016 for the traditional strategic Counsel portfolios were uninspiring, a broader perspective of the last 2 years demonstrates that cumulative returns provided appropriate risk-adjusted returns according to each portfolio's exposure to stocks relative to bonds. Longer term, results have been even better. As investors, we must keep catching ourselves when focusing on the 'moment' in the investment world. Optimal risk-adjusted returns accrue over time. Chasing last year's investment winner has never proven to be a sustainable strategy. As already stated, there's no such thing as a 'best investment'.

Together, we will continue to work toward making adjustments when necessary, to ensure your portfolio reflects your objectives, time horizon and risk tolerance.

We expect the future, like the past to provide both fear and opportunity, usually simultaneously. I am optimistic about the coming years.

Sincerely,

John Soutsos, B.Econ., CIM®, EPC
Investment Advisor, IPC Securities Corp.