INVESTORS' JOURNAL

June 2019

CAPSTONE
ASSET MANAGEMENT™

ECONOMIC UPDATE

During this past quarter, portfolio managers at Capstone had the opportunity to attend the annual CFA conference in London, England, along with economists and financial professionals from all over the world. The theme was "Disruption" and the time was spent exploring the various risks present in the global market and how these could manifest themselves to "disrupt" markets and ultimately investor portfolio returns. It was agreed by most, including our team at Capstone, that today's biggest economic risks are geopolitical, or political, in nature. These are particularly concerning risks to investors because they tend to persist and their resolutions are difficult to predict.

For over a year, we have been watching these particular political risks manifest through increasing nationalistic and protectionist global trends. This is particularly observed in the trade tensions that have increased between the U.S. and Canada, Mexico and China. While some harmony was found this quarter with the U.S. when both Mexico and Canada pressed ahead to ratify the CUSMA, colloquially known as the "New NAFTA," not much progress has been made between the U.S. and China.

Many anticipated a resolution to the U.S./China stand-off in May, but talks quickly broke off and more tariffs were levied by the U.S., who claimed China had reneged on their agreement. Talks resumed at the end of June, but there has been no resolution thus far. Motivated by approaching U.S. elections, President Trump will likely make concessions to further progress trade talks, while the Chinese may feel that delay tactics could afford them the opportunity to negotiate with a new government. Economic progress and national security will play competing roles in these discussions.

In the EU, we continue to see tensions in the political arena disrupting the economy. Brexit negotiations, a slowing German economy, combined with serious political and financial issues in Italy, continue to plague the region. Some economists even go so far as to predict that these tensions may combine to be the catalyst for breaking up the EU itself. Only time will tell how these issues resolve and the subsequent consequences that each country will inherit.

Within this past quarter, both the U.S. and Canada experienced another bond yield curve inversion. Inversions occur when long-term bond yields suddenly go lower than short-term yields. While many still hold to the tenet that this phenomenon precedes a future recession, some believe that, in this case, it is a false alarm and may be a result of money fleeing from the EU due to political instability, or from investor caution surrounding trade tensions between the U.S. and China. Whatever the case, the bond yield curve inversion still highlights the uncertainty many feel about the future health of the economy and investors should see it as a caution sign in their financial roadmap.

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Interest rates this past quarter remained steady in both the U.S. and Canada, but through the course of this year, the U.S. has changed its stance from one of patience and holding steady to threatening interest rate cuts to keep growth and employment strong. This is a significant divergence from the Fed's stance last year, which was advocating interest rate increases. On the Canadian front, we expect rates to remain steady through the end of the year, with less of a risk to interest rate cuts compared with the U.S.

Stock markets in North America began the quarter stressed by trade talks, and then buoyed in light of relaxed interest rate policies. Risks are still very real and we believe that many investors are trigger happy to sell if news warrants concerns. This means volatility will continue to be a central theme on the equity side of the portfolio.

In the fixed income arena, we have seen a major recovery of bond prices this year as the market is positively responding to a freeze on interest rate hikes. While many will likely experience this recovery in the increased value of their bond portfolios, as well as have some relief on the debt side of their financial picture, this also means that the interest rates received on savings will not be increasing.

While we are no longer in the emergency rate territory of the past, the current low interest rate environment is still very noteworthy. Canada's largest population cohort is the Baby Boomer generation, and they are now entering the full retirement phase of their lives. This also means that they will be actively looking for an income stream from their portfolios and if they cannot find this in the lower-risk fixed income market, then they will go elsewhere. Dividend paying, blue chip stocks are the most likely candidate for their investment dollars and it can be easily argued that the "extra" demand on these securities is playing into the growth of the stock market, particularly in the U.S. While many investors feel they have no choice but to move into a heavily weighted equity portfolio, we believe they are not appropriately counting the extra risks they are taking. Furthermore, during a period in their life when they should be simplifying their financial situation, they may feel the stress of equity market volatility to a much greater degree.

So, what is the solution for investors looking for income from their portfolio? At Capstone, we believe the answer is two-fold. First, we incorporate non-traditional (often private) fixed income opportunities that are typically difficult for the average investor to access. They often provide a higher, more stable, return than the traditional bond market. These investments include mortgages, infrastructure financing and private debt, to name a few.

The second step to our portfolio solution is to provide better diversification on the equity side. By incorporating non-traditional equity investments, investors who can accept the extra risk of the equity market can now supplement their portfolio with an investment that is truly not correlated with the traditional stock market. Because if there is one thing that the 2008 debt crisis taught us, it is that in the midst of a major crisis, equity markets all start behaving the same way – they all go *down* together. This reality demands a more effective equity diversification solution than just varying sector or geographic stock selections.

In a lot of ways, we have seen the themes from the last quarter carry over into Q2 as investor attention has been predominantly focused on political tensions, trade disputes, bond yield curve inversions, and interest rate concerns. But investors who stay invested, pay attention to volatility and manage an appropriate risk profile should be in a better position to weather the good and the bad that may come.

We should never think that once we have given some money and time to the Lord that the rest is ours to do with as we please. All that we have belongs to God, so He should be taken into consideration in everything we do. ~ Theodore Epp, Evangelist

ELDER ABUSE AWARENESS

This past June 15th was World Elder Abuse Awareness Day, as recognized by the United Nations since 2006. Elder abuse has many forms, but we would like to specifically focus on elder financial abuse and what you can do to prevent it either as an aging senior or as a family member.

What constitutes elder financial abuse?

Elder financial abuse is defined as either the unlawful or unauthorized use of an elder's financial assets. The elderly person's assets may be used for someone else's gain and goes against the elder's needs, wishes or best interests.

What are some examples of elder financial abuse?

There are many schemes out there performed via email, phone or door to door. These can range from alleged credit card offers with the goal of identity theft or other fraudulent scams including phony charity donation requests, investment opportunities, insurance offers, etc. Many have fallen victim to these increasingly sophisticated scams, but seniors tend to be especially susceptible.

Closer to home, elder financial abuse can be as insidious as a family member exploiting an aging senior's decline in health. A family member may manipulate the senior for their own financial gain such as pressuring an elder to sign over control of certain assets or seeking monetary gifts from a parent suffering from the early stages of memory loss.

What makes seniors a target?

Abusers often target seniors for their feelings of loneliness, ease of trust and longing to help others. Within the family circle, those afflicted often desire to keep the peace between several children with competing interests. Additionally, the elder may be showing signs of memory loss or dementia which can also make it easier for perpetrators to take advantage. The challenge here is that many seniors fear admitting that they are concerned or struggling for fear that it may lead to further isolation or perhaps cause them to lose control over their own assets.

How can you prevent financial abuse?

The first priority in preventing financial abuse is raising awareness. Warn your elderly parents about the varying schemes that are out there. As a senior, it is important to identify a few persons that you trust to seek out independent, third-party advice.

Establishing a Power of Attorney is paramount to ensuring that there is a plan in place for when you or your loved ones can no longer make decisions. It may also be worth having a transition period whereby the party holding the legal authority to act on an elder's behalf, perhaps a son or daughter, be present at meetings with certain professionals such as Accountants, Lawyers, and Portfolio Managers, to become familiar with the elder's financial situation.

What to do if you suspect elder financial abuse?

As the child of an aging parent, if you suspect that there may be financial abuse happening, document your findings. If you notice they are withdrawing large amounts of money without any reasonable explanation, for example, this should be closely monitored. Questionable investment activity should be brought to your local securities regulator. If you suspect financial abuse that is criminal in nature, contact your local police. Finally, the Seniors Abuse Information Line is a great resource where older adults may safely discuss any potential abuse or mistreatment.

If you are concerned about elder abuse and would like more information, please contact the Seniors Abuse Information Line Toll Free at 1-866-437-1940 or TTY Teletype 1-855-306-1443.

CAPSTONE'S POOLED FUNDS SUMMARY

Performance figures are those of Class F units as of June 30th, 2019

Capstone Mortgage Pool
Diversified pool of construction and development mortgages (Launched November 30, 2012)

3 Month:	2.00%
1 Year:	7.87%
Inception:	7.97%*

Capstone Fixed Income Pool
Conservative, traditional and non-traditional income (Launched December 6, 2013)

3 Month:	1.79%
1 Year:	3.98%
Inception:	3.48%*

MarshallZehr Mortgage Opportunities Fund
Diversified pool of construction and development mortgages (Launched July 15, 2014)

3 Month:	2.04%
1 Year:	8.05%
Inception:	8.19%*

Capstone Non-Traditional Equity Pool
Diversified portfolio of non-traditional equity investment opportunities (Launched June 6, 2014)

3 Month:	2.06%
1 Year:	2.59%
Inception:	5.05%*

Capstone Traditional Equity Pool
Value-based approach to investing in traditional markets (Launched December 12, 2014)

3 Month:	0.84%
1 Year:	-5.34%
Inception:	2.68%*

MarshallZehr First Mortgage Fund
Diversified pool of construction and development mortgages (Launched July 31, 2016)

3 Month:	1.49%
1 Year:	5.88%
Inception:	5.47%*

*Performance is annualized for periods longer than one year.

YOUR WEALTH MATTERS

We are pleased to announce the launch of a new content driven addition to our website called Your Wealth Matters. Just mouse over the Private Wealth button on our home page, and you will find the new Your Wealth Matters link.

This is a window into our ever-expanding presence online from Radio to Blog Posts, and soon Podcasts featuring Capstone Portfolio Managers and other compelling industry professionals. We will explore a broad range of topics including stewardship, wealth transitioning, generous living and a host of other pertinent issues facing clients today. If you have any suggestions for content, we would love to hear from you at info@capstoneassets.ca.