Happy Holidays.

88 years old and not just kicking!! “A life well lived” will one day be the understatement. With all of the craziness of 2017, we find it appropriate to highlight someone who has been both a model citizen and one of the most successful investors in history. Thank you Warren Buffet for providing us with sound values, sanity and direction.

In spite a rather chaotic year led by a growing list of despots such as Putin, Ertogan, Duterte, al-Assad, Kim Jung, Zuma, Maduro, and let’s add in Donald Trump (though he does not have absolute power, thankfully!) 2017 proved another fine year for Benchmark clients and nothing could please us more. The overweight in foreign equities and underweight in bonds proved to be sound strategies with equity markets reacting positively to the growing global economy and rising corporate profits, and this in spite of all of the noise (and tweets!). With only days to go, the emerging markets are up 25% on the year, followed by the international markets (MSCI EAFE) at + 17%, US equities (S&P500) at +15% and Canadian equities (TSX) at +8.5% (all in $ Cdn). Meanwhile Canadian bonds are up a mere 2.5%, though still more than expected.

Client portfolios are up between 9.0% and 12.5% all depending on individual investment policies. Other than the favourable asset-mix favouring equity exposure, other contributors include ourperforming international equity funds, while a shift away from traditional bonds to dividend funds and High Yield bonds also helped. In the absolute, strong returns from the emerging markets which all portfolios have an allocation, also helped. Meanwhile lower than TSX returns by many of the Canadian equity funds in particular the two Canadian Small Cap Funds detracted somewhat the overall return. Exposure to the Precious Metal fund (up over 70% in 2016 but down 4% in 2017) was also a slight negative.

What is in store for 2018: With many pundits calling for a major stock market correction over the past three to five years, many investors have stayed on the sideline (in cash) and as a result have seriously missed out on gains to be had. A recent media interview with a major international Swiss Bank confirmed that they have kept their clients including their super wealthy clients, significantly out of the market in cash. They now find themselves in a rather uncomfortable position hoping for a correction. As we have explained in these reports, our asset mix strategists have maintained a constructive (positive) view of the equity markets citing the growth of the global economy and of corporate earnings as the leading influences investors should focus on. As we approach 2018 their recommendation remains unchanged.

This said, some of the issues that could adversely impact global growth and corporate earnings include a serious breakdown in trade relationships between the major economies and/or a sudden wage inflation jump. We do note that both are showing some signs of stress. The World Trade Organization is now seen hamstrung between an uncooperative Donald Trump and an entrenched China. This is in turn causing a stalemate in terms of resolving ongoing trade issues. In Europe, where the consequences of Brexit are quite clear (the UK is the clear loser), a less cooperative Poland may cause some new upheavals within the union.

As we have now reached full US employment, wage pressures there may be just around the corner. This is largely lead by the red hot tech sector where the quest for talented programmers especially in artificial intelligence, is causing a high degree of recruiting competition reminiscent of the late 1990s Tech years. As a further inducement to tech geeks, some silicon companies are now reported hiring models to attend their Christmas parties in order to enhance the atmosphere and help with retention; Perhaps a sign of a top.

Corporate earnings for now remain on firm ground. In the US they will be further fueled by lower corporate taxes and renewed efforts to push through infrastructure rebuilding (even though the proposed Tax act will play against that). In Europe some of the economies are nearing full speed, Germany in particular.

Another possible equity headwind in 2018 will be the FED's initiation of quantitative tightening, which got underway this month. This is essentially a reversal of the 2010 to 2014 quantitative easing measures when the FED purchased some $3 trillion of treasuries and mortgage backed securities with the objective to add liquidity and lower bond yields. Under QT the FED will sell these securities back into the market by primarily not renewing positions as they come to maturity. While the FED intends to carry on these operations gradually over time (we estimate

10 years), it just announced earlier this week it would double up on its January sale amount to $20 billion.

The concern is that if QEs caused an expansion of liquidity and stock market valuations, will QTs have the opposite effect? We are in unchartered territory. If there are to be adverse consequences, we will probably have to wait until later in 2018 since for now the last phase of QEs out of the EU and Japan will probably offset the US FED's QT.

It is clear that North American interest rates will continue rising and are likely to reach 2% in the US by the end of 2018. Canada will follow but with a lag as the BOC awaits the outcome of the NAFTA renegotiations and remains quite concerned over the leverage within Canadian homes. We therefore see both the short end and the long end of the bond curve to be under rising pressure, rendering bonds an unattractive asset class for the time being.

Portfolios have maintained their 4 to 5% exposure to Gold via the Precious Metal Fund. It remains an insurance against the many geopolitical risks that can be sudden and unpredictable. These include but are certainly not limited to a North Korea missile crisis, a global internet shutdown, or any other sudden occurrence or conflict. In of themselves, gold stocks also remain reasonably priced with low built-in expectation of higher gold prices.

Bitcoin: It is certainly captivating to witness the surge in Bitcoin. In effect this cryptocurrency medium is largely being used by illicit money as a means to convert into seemingly legal tender while enjoying anonymity. Other investors are being cleverly drawn into the speculation. While the SEC and the FCA in the UK are reviewing these types of investments, the recent surprised request by the US Internal Revenue Agency to access all of Paypal's transactions may well provide a hint who may prick the bitcoin bubble. In fact retiring FED Chair, Janet Yellen, recently hinted as much in her parting words before congress. The rush to a "botched-coin" exit will be quite a spectacle alike that of a large game of musical chairs where none of the thousands of euphoric partiers realize there are no chairs to run to when the music stops.

Clients will have noticed that we did reduce exposure to the North American High Yield Bond fund in early December and reinvested much of the proceeds into foreign and emerging markets. The reduction in the high yield bond fund largely reflects the view that after double digit returns in 2016 and over 5% in 2017, lower quality yields are now expanding more rapidly than those of government bonds leaving them at a disadvantage. We intend to return to High Yield bonds at some point in the future.

And as we sign off on this last investment report of 2017, we extend to you our clients our most sincere appreciation for your confidence in our service. We truly feel blessed to have such a fine group of individuals and businesses to serve.

We wish you and your families and friends, the very best for the holiday season.

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