The Empire Club Presents

ANNUAL INVESTMENT OUTLOOK LUNCHEON 2018

FEATURING: NICK BARISHEFF, IAN RUSSELL & DAVID ROSENBERG

Welcome Address, by Barbara Jesson President of Jesson + Company Communications Inc. and President of the Empire Club of Canada

January 11, 2018

Good afternoon, ladies and gentlemen. From the Royal York Hotel in downtown Toronto, welcome, to the Empire Club of Canada. For those of you just joining us through either our webcast or our podcast, welcome, to the meeting. Before our distinguished speakers are introduced today, it gives me great pleasure to introduce our Head Table Guests. I would ask each Guest to rise for a brief moment and be seated as your name is called. Please, refrain from applauding until all the Head Table Guests have been introduced because, as you can see, it is a rather large Head Table.

HEAD TABLE

Distinguished Guest Speakers:

Mr. Nick Barisheff, President and Chief Executive Officer, BMG Group Inc.
Mr. David Rosenberg, Chief Economist, Gluskin Sheff +Associates Inc.
Mr. Ian Russell, President and Chief Executive Officer, Investment Industry Association of Canada

Guests:

Mr. Matt Black, Defensive Back, Toronto Argonauts Football Club, CFL
Ms. Georgina Blanas, Executive Director, PCMA; Director, Empire Club of Canada
Mr. David Brown, Partner, WeirFoulds LLP
Mr. Richard Carleton, Chief Executive Officer, Canadian Securities Exchange; Director, Empire Club of Canada
Mr. Rory Cattanach, Partner, Wildeboer Dellelce LLP
Ms. Vivien Clubb, Head, Marketing and Communications, IBK Capital Corp.
Mr. Philip Grosch, Partner, PwC; President, Treble Victor Group
Mr. Joe Hinzer, President, Watts, Griffis & McOuat Ltd.
Mr. Tyler Holmes, Offensive Lineman, Toronto Argonauts Football Club, CFL
Mr. Lance Hooper, President and Chief Operating Officer, Cobalt Blockchain Inc.
Ms. Sue Lemon, Chief Executive Officer, CFA Society Toronto
Ms. Jacoline Loewen, Director, UBS Bank (Canada)
Dr. Gordon McIvor; Past President, Empire Club of Canada
Ms. Verity Sylvester, Vice President, CMC+CO; Past President, Empire Club of Canada
Mr. Rodney Thomas, Immediate Past President, Prospectors & Developers Association of Canada (PDAC)
Mr. William White, Chairman, IBK Capital Corp.; Director, Empire Club of Canada

My name is Barbara Jesson. I am President of Jesson + Company Communications and President of the Empire Club of Canada. Ladies and gentlemen, your Head Table Guests.

I find it interesting that our speakers, today, are sharing the podium with the Toronto Argonauts, winners of the 105th Grey

Cup, because it does seem to me that economic forecasting and sporting prognostication share a good deal in common. These days, both rely heavily on statistics, but can quickly be derailed by random acts of disruption. We are living in a world of quixotic decision-making that makes predicting anything in 2018 particularly audacious, in my opinion. I am full of respect for anyone who has the temerity to go on the record on the prospects for investments in the year ahead.

Of course, investment forecasting is not quite the same as economic projection, although they frequently rely on some of the same data. It goes without saying that the current of the market is difficult enough to harness, let alone anticipate.

Forecasting is never easy, but for most of us, it certainly has never been more elusive. I liken it to weather forecasting. If the weatherman predicts rain, I carry an umbrella. If it rains, I am very happy to have it, and if the clouds evaporate and the sun comes out, well, I am just so darned happy to see the sun. I do not mind at all that I have to carry that umbrella. I see it as a kind of talisman that wards off the storm.

Unfortunately, investment forecasters have to rely on human behaviour in developing their models. As pollsters have learned only too dramatically in the past 18 months, human behaviour is anything but predictable.

Then we have that guy in the Whitehouse just south of us. Try and find anything rational in what to expect from him.

Of course, the headlines, today, are rather startling. We have the question of interest rates. Will they go up or will they stay where they are? We have the WTO challenge by

our minister of trade, and we have the reports of the imminent demise of our NAFTA agreement with the United States.

As I was preparing my remarks for the lunch today, I received an email. It went like this: "I wonder if you would be interested in an infographic my team and I created about the eight disasters to prepare for in 2018, including nuclear accidents, EMP attacks, economic collapse, pandemics, and terrorism." When you accept that in the best of times forecasting has its challenges, and then you add in the mercurial political environment of our world today, you will understand why I said at the outset that our speakers, today, have my full admiration. Anyone trying to put forward a coherent investment strategy in this climate has my attention, indeed.

With no further delay on my part, we are joined today at our 2018 Investment Outlook Luncheon by Mr. Ian Russell, David Rosenberg, and Nick Barisheff. Mr. Russell is the President and Chief Executive Officer of the Investment Industry Association of Canada, a position he has held since its inauguration in April 2006.

Graduating from the University of Western Ontario with an honours degree in economics and business, he has enjoyed a long and successful career in the securities industry.

Mr. Rosenberg is the Chief Economist and Strategist at Gluskin Sheff, and the former Chief North American Economist at Merrill Lynch. A graduate of our own University of Toronto, he is also the author of Breakfast with Dave, a daily distillation of his economic and financial market insights.

Mr. Barisheff is the Founder, President and CEO of BMG

Group Inc., a company dedicated to providing investors with a secure, cost-effective, transparent way to purchase and hold physical bullion. An internationally recognized bullion expert, Nick has written numerous articles on bullion and current market trends that have published on various news and business websites, and he appears often in the media.

Ladies and gentlemen, please, join me in welcoming Mr. Russell to our podium.

Ian Russell

Thank you, Barbara. Good afternoon. I am delighted to join you, again, at the Annual Investment Outlook Luncheon. In my remarks, today, I will take a slightly different perspective and offer my views on the outlook for the risks to capital markets. In fact, after listening to Barbara's opening comments about the challenges of forecasting in today's climate, it is perhaps the safest place to be.

The consensus forecast, this year, calls for continued, steady, modest economic growth and stable capital markets, both globally and in North America. You will hear more about all of this later on from our other presenters. Global capital markets are acutely vulnerable to certain risks of disruption and dislocation whatever the near-term outlook happens to be.

The global markets face the threat of market fragmentation, a shortage of liquidity, and the potential of being upturned by a significant shock. I would like to look at each of these risks in turn.

First, the potential for regulatory fragmentation. When individual jurisdictions impose different rules for similar market activities, it interferes with the flow of cross-border capital, resulting in higher costs and market inefficiency to the users and providers of capital.

Fragmentation invites a myriad of problems. One, regulatory arbitrage and unfair competition. Two, fragmentation undermines the ability of financial institutions to conduct business, complicating trade and investment. We have seen what happens when markets fragment. Consider the global over-the-counter derivatives market. The G20 leaders agreed, in the wake of the financial crisis in 2009, to improve the integrity of OTC trading, clearing and reporting. The regulators failed to coordinate rulemaking with each other. The result: Fragmented markets led to rule duplication and rule overlap for similar types of transactions. Derivatives traders, subject to multiple regulatory regimes, were unable to execute transactions efficiently with foreign counterparties and to clear securities through offshore clearing houses. Fluid global OTC markets transformed into balkanized markets. Derivatives investors were left with less choice, less liquidity and higher costs. The key question is: Will the current trend, moving away from cross-border regulatory cooperation lead to the same result?

The United States is now engaged in the process of financial deregulation, in marked contrast to most of the rest of the world. We see signs that the White House, the Treasury, and Congress are putting America first and global regulatory cooperation last. The Treasury has urged U.S. regulatory

bodies to try to shape regulatory standards to meet domestic objectives rather than global concerns—the beginning of two distinct regulatory tracks in which the U.S. moves in the opposite direction to its principal trading partners.

For example, the Treasury has recommended delaying the domestic implementation of two significant components of the Basel Committee recommendations to promote a more resilient global banking system; provisions to ensure banks have a minimal amount of stable funding; and the review of trading books to reduce potential trading risks. In fact, leading members of Congress have voiced resistance to the Federal Reserve Board involvement in the negotiations on international regulatory standards and the pursuit of global regulatory goals with international organizations, such as the Financial Stability Board and the Basel Committee.

Members of Congress have called for a review of global institutions and past agreements in a wide range of areas, from bank capital to insurance to asset management. While we are not likely to see a sweeping overhaul of U.S. financial regulation that was passed in 2010, aspects will certainly be reshaped and softened, such as criteria to determine whether banks are considered systemically important and, as well, there will be modifications to the Volcker Rule that bans banks from engaging in proprietary trading and saddling taxpayers with potential massive losses.

We also see an increase in protectionism. In the post-Brexit world, U.K. officials have signaled that they may develop a distinct regulatory framework, moving financial services

regulation away from EU directives and regulations over time. That would increase the potential for regulatory divergence, arbitrage and renewed financial instability. If the EU mandates trading marketplaces and CCPs to be based in the EU member countries and outside London, that would exacerbate fragmentation.

Here in Canada, we took a significant step away from fragmentation by establishing the Cooperative Capital Markets Regulatory System. The CCMRS encompasses only five provinces and one territory. A little more than half the provinces and territories still remain outside the cooperative regulator. Moreover, it will be at least another year before the CCMRS is operational. Ours remains the only industrialized country lacking a single body to regulate its securities markets.

Meanwhile, regulators across the Canadian financial sector have identified significant regulatory gaps in disclosure and market conduct in the provision of financial advice and investment products. These gaps will have to be addressed through greater regulatory cooperation.

The second major threat that our capital markets face is the risk of illiquidity. Liquidity is essential to facilitate trade flows. Investors only buy when they are sure they can sell, and they can sell only if there are buyers.

The decline in the liquidity in global markets is particularly noticeable in periods of stressed markets when market-makers pull back sharply from dealing activity. The liquidity problem can be traced to various factors, from narrower deal-

ing spreads to more expensive capital. Weak liquidity is a serious risk to markets as it results in less efficient pricing of the new offerings of securities, and also leaves markets more vulnerable to external shocks.

The third threat we face is the increased risk of sudden shocks to the financial system and our ability to respond to them. Our financial markets are especially vulnerable because of the growth in exchange-traded funds. Increasingly, investors are putting their money in diversified index funds, in effect, buying the market rather than individual companies, to reduce costs and preserve capital. Increasingly, large institutional funds and asset managers are also investing in ETFs.

According to Bank of America Merrill Lynch, ETFs now make up one-quarter of U.S. stock trading volume and three-quarters of traded single stocks. Five years ago, ETFs accounted for just one-sixth of U.S. stock market trading volume. Meanwhile, the percentage of equity mutual fund assets jumped from 19% in 2009 to 37% in 2017, according to the Bank of America.

While the figures are not as high in Canada, increasingly, what we have is a market of markets, rather than a market of individual companies. The large, concentrated holdings of index-linked products either in ETFs or mutual funds in both individual and institutional portfolios are vulnerable to asset price declines synchronized right across the marketplace and highly exposed to external shocks from macro factors, such as rising inflation rates, change in the direction of monetary

policy, or a major geo-political event.

The consequent downward asset price adjustment could be faster, more correlated and more intense than adjustments in markets driven by more fundamental factors. The potential is there for an unprecedented herd mentality, leaving market-makers with limited scope to absorb panic selling.

Another potential shock comes from the lack of cyber resilience or proper cyber defense. The increased sophistication and frequency of cyber-attacks not only cause financial loss and breach of confidentiality, but interfere with trading venues and capital markets activity. That risk is amplified by the significant outsourcing by investment dealers and asset managers to enhance efficiencies, compensate for scale and reduce costs. Firms' standards of financial integrity and cybersecurity may not be matched by these third-party vendors.

How do we guard against all these risks? One, we need better regulatory coordination. Regulators from different capital markets and jurisdictions need to coordinate more effectively with each other across borders. We see some positive examples of this. Regulators around the world, including Canadian regulators are focusing on increasing the cyber resilience of the financial systems.

IOSCO plans to undertake a comprehensive study of cyber outsourcing of services and related risks and develop a template for due diligence and oversight to manage risk.

The Financial Stability Board is developing a work plan to address weak corporate governance of financial institutions.

Regulators within a particular country or jurisdiction also

need to cooperate and coordinate with each other across the domestic financial sector, involving insurance, banking and securities firms. In Canada, we have seen two positive examples of this. The Financial Consumer Agency of Canada recently entered into an information-sharing memorandum of understanding with IIROC, setting a framework to facilitate compliance with and enforcement of rules and requirements of the respective organizations. This formal cooperation suggests a more active rulemaking and requirement regime at the FCAC. This rulemaking, in return, will require greater interaction between the bank and securities regulators.

The newly established Financial Services Regulatory Authority in Ontario will develop detailed regulations for the insurance industry and other financial institutions operating in Ontario. It is important that these banking and insurance regulators cooperate with securities regulators to ensure similar rules for similar retail activities. It should be noted, the securities regulators in Canada, led by the CSA, have made great strides in strengthening market conduct rules for advisors and the transparency of the investment process. Regulators outside the domestic investment industry should take note. Here is the second way we can guard against risks: We need a careful, disciplined approach to regulation, finding the appropriate and most cost-effective rules to guide financial advice and market dealing. We have made good progress, but need to rely even more on evidence-based analysis and more extensive cost-benefit work.

Thirdly, while non-bank institutions in the financial sector are not themselves systemically important, their participation in stressed financial markets could contribute to a systemic market impact. We need to strengthen the underpinnings of these institutions, notably some of the large asset managers, through increased liquidity cushions and tighter leverage requirements.

Ladies and gentlemen, a decade out of the financial collapse, the capital markets are healthy, but they have within them inherent risks. We must guard against market fragmentation through better regulatory coordination; we need to take greater care in the rulemaking process; and we need to limit the potential for market shocks as best we can.

The risks are there. We must be mindful of them, and we must address them. Thank you.

David Rosenberg

Happy New Year, everybody. When Bill White asked me to come here and speak, I reminded him, “This is my 9th year here since 2009.” He said, “Rosenberg, we are going to keep on inviting you back until you get it right.” I want to see if anybody in the room can match that level of job security.

I believe in second chances, but nine is a real stretch. Let us get into the theme for 2018. When the economists and the analysts and the strategists are all thinking about their thematic for the following year, and we are struggling to come up with the headline-grabbing title, there is an old refrain that when in doubt, resort to the Chinese zodiac. That is what I did. I went to the Year of the Dog. Let us hope that it is

just a mild bark and not a bite. I actually find it interesting because the last time it was a canine was in 2006. If you remember, that was the last full year of the cycle that, of course, everybody thought was never going to end, and I was standing at the top of the mountain barking, "Take risk off the table! Time for capital preservation, and, no, there is nobody out there that is going to be able to time it for you, but understand where you are in the cycle."

It is the Year of the Dog, and this dog needs some training, otherwise known as some late-cycle training. That is what we are going to be talking about.

As I was developing this thematic, I was thinking to myself, especially, after the year that we have just had, about what the wise investment sages would be saying right now. No matter where you looked last year, FANG stocks, other growth stocks, emerging market stocks, corporate bonds, precious metals—I would put bitcoin on here, but it would blow up the slide, as it was only up 1,400%. Now, there is helium coming out of that bubble. Take a look at the asset class that actually performed the worst, which is global bonds, which generated a 7.5% total return last year. Bonds generated an equity-like return.

Last year was very unusual. It is telling you something about all this liquidity sloshing around the globe. Here is my forecast. I will give you my forecast. It is not numerical, but I will say this: This is a one-in-century event. Therefore, in the Year of the Dog, when we redraw these bars 12 months from now, they are going to look a lot different.

I do not think that needs a disclaimer. I was thinking about what the great sages would say about this environment.

I thought, "Well, last year I talked a lot about Donald Trump," but this is my only slide on Trump this year, thankfully. But I thought, "Why would we not ask the stable genius what he thinks?

In September 2016, he actually tweeted, "We are in a big, fat, ugly bubble and we better be awfully careful," when the Dow was 7000 points lower than it is today. That was a big, fat, ugly bubble. What is it today, Mr. President? I do not know. Is it a hot air balloon? You tell me. Maybe we should actually dig a little deeper, right, to the real mental giants in this business to really make sure that we are grounded after this phenomenal risk-appetite year that we came off of.

Benjamin Graham [said], "While enthusiasm may be necessary for great accomplishments elsewhere, on Wall Street it almost invariably leads to disaster." Remember the word 'enthusiasm'.

What about the oracle, "Be fearful when others are greedy; be greedy when others are fearful." It sounds pretty glib, right? But this is wash, rinse, repeat, right now, at this stage of the cycle. The other one is from Warren Buffett: "What we learn from history is that people do not learn from history." How great is that?

What about Baron Nathan Rothschild? This is great. At the peak, he was only worth $35 billion. That was back in the 1800s. "I never buy at the bottom, and I always sell too soon," he said. How pithy is that? I never wait for the peak.

I never bought at the bottom. I never wait for the peak. Really, when you think about the successful people in this business of investing, they are the ones that really play the middle 60% of the cycle. I will show you that we are well past the 60% of the cycle.

Sir John Templeton: "Bull markets are born on pessimism, grown on skepticism, mature on optimism, and die on euphoria." We hear two 'E' words: 'enthusiasm' and 'euphoria'. Then, you map this out on the investment cycle.

When I spoke here in 2009, we were somehow, somewhere down on the bottom, on the right, close to depression, but coming off the lows. Where are we today? We are somewhere on the left side of that chart, somewhere between enthusiasm and exhilaration. I am not saying we are quite at the euphoric state yet, but we are getting there. The operative word is to invest accordingly.

I do not know how this quote got in here. That is just an insult, but John Kenneth Galbraith was, after all, an economist, so I guess this is just a little self-deprecating humour: "The only function of economic forecasting is to make astrology look respectable." I think that we had an umbrella. It is basically more like that God made economists make weathermen feel good about themselves. That is basically the way we would say it today.

There is another economist, Herb Stein, Ben Stein's father—you remember Ben Stein, right? Bueller? His father was actually Richard Nixon's economist back in the '70s. Do not hold that against him. He was really a brilliant man.

He said, "If something cannot go on forever, it will stop." What could be more obvious than that?

What we want to talk about is not so much about numerical forecasts. We could talk about where I think the Canadian dollar is going. I am not going to give you a point forecasts. If I did not like the Canadian dollar at $1.29, I sure do not like it at $1.24. We can talk about interest rates. There is no question that the short end of the yield curve is going to drift higher in the coming here. Canada will feel part of that from the U.S., no matter what the Bank of Canada does.

Let us talk about what is happening from 30,000 feet up in the air. It is not about numerical forecasts, which economists give you, which are meaningless. It is really about How are we going to invest in the next say 8 to 12 to 24 months? I think it is imperative that we understand where we are in the cycle. I showed you the exuberance in the investment cycle. Is it matching what we are seeing on the economic cycle? What are these bars? They are very simple. These bars are the length of the expansions going back—well, my Lord, I got them back to Ulysses Grant. I got data back to the 1860s. A typical economic expansion is 40 months. People would say, "Why would you go back to the Civil War?

The economy is so much different." Okay, I will admit that, so go back to the post World War II experience. A typical normal—the average is the norm. Norm is normal; the average expansion is 60 months. That is typical. As we stand here, today, or as you sit here, today, the expansion is 103 months old. If it makes it to May, it will be the second-longest ever.

Of course, the pushback is, "Oh, well, expansions, they do not die of old age." I know that, but they die. Expansions die; recessions die; bear markets die; bull markets die. It is just a cycle. This is actually very abnormal that we are in the 103rd month. The question is how much longer are we going to go? People say we do not die of old age. I said I know that; we usually die at the hands of the Central Bank—I will get into that in a second—more the Fed than the Bank of Canada.

They call economics the 'dismal science'. Do you know why? You have to flip it on its head. So much of the economic data for investors are contrary indicators. Let us take a look at consumer confidence. You see this chart here? This is actually absolutely fascinating. Take a look. See that when consumer confidence is at a peak, recession is usually a year away. How do you like that? When you are at the bottom, the recession is about to end. Why is that? Because of the peak of consumer confidence; it is like there is no more pent-up demand. It is like you had the five-course meal; you cannot stomach the crème brûlée. You basically have already oversaturated yourself with all the purchases of consumer gerbils over the course of the past five, six, seven years, and exactly the opposite right at the bottom. You starved yourself. You have not taken the family out for dinner. You have not gone on any vacation. Do you not see how great this indicator is? When people say consumer confidence is so great, I am saying, "Yes, not only is it great; it is actually in a peak." What does that mean when it comes time to investing your money? It is like the optimist and pessimist. They meet for a coffee. The optimist says things cannot possibly get any better. The pessimist says, "I think you are right." That is exactly what this chart is attempting to show.

The flip chart is, of course, the labour market. How great is the labour market? You wanted to buy all-in risk nine years ago when everybody was hiding under the table screaming "Uncle!" Consumer confidence was depressed; there was tremendous pent-up demand ready to be unleased; and, at the same time, the unemployment was 10%. Things will never get better. That is the optimal time to add as much risk to the portfolio. That day will come again, but for this cycle, it is well on the rearview mirror.

Unemployment rate. The chart in Canada looks much the same. We are hitting the wall on the labour market. The unemployment is down to 4%. Take a look, once again. This is actually the flipside, the mirror image of consumer confidence. Take a look when you hit the wall on labour. We are running out of labour. Unemployment is at 4%. That is great news. We have got to raise wages? Okay, that is great. Wal-Mart is raising wages. That is great. It will come out of their margins. What does that mean to you as an investor? It is funny, actually, that when things get this good, maybe they get a little too good, but this is all classic late-cycle confidence—the labour market, autos, housing.

What about the Fed? The Fed is raising rates, albeit from a very low level. It is always from a low level, and you always

see who is standing naked on shore when the tide rolls out, when the Fed is starting to drain liquidity. Some Fed tightening cycles are longer than others. Here is what I know about Fed-tightening cycles. By the way, when you are talking to the bulls, what do you notice was the mantra in '08 and '09 and in 2010? Do not fight the Fed. Do not fight the Fed. Do not fight the Fed. Ultimately, the Fed wins. I have never seen the Fed ever fail to stop a bear market in its tracks. I have never seen the Fed fail to end a recession in its tracks. Sometimes it takes more fire power than others, like it did with 0% interest rates and endless quantitative easing, but, rest assured, the Fed will get what it wants. Do not fight the Fed. It works from both directions. The Fed is raising rates, but not just raising rates: This year is going to be different because they are going to shrink their balance sheet by $450 billion. Basically two-thirds of QE1, one that we all loved back in 2010 is going to unwind between now and the end of this year.

And I know that a Fed tightening cycle is not the same as a Fed easing cycle. You want to invest differently in a tightening cycle than an easing cycle. I do not remember a time, historically, when we finished a Fed-tightening cycle with the economy accelerating. You either go into a soft landing where growth slows and the Fed just knows when to stop in time, or you go into a recession which, let us face it, is part of the investing and part of the economic landscape. Recessions, expansions. Thankfully, recessions are short and brief, and expansions typically long and strong, but they are joined at the hip.

We have got people out there that are saying this new Fed Chairman, Jerome Powell, is a Janet Yellen clone. I do not know. These people say this. I see them on CNBC and BNN, and I am there thinking, "Are they just lazy, or are they clueless?" Basically, go back and read. Go back to the FOMC transcripts. You can get them back to 2012. Powell was definitely no big fan of this bloated Fed balance sheet. He is no big fan, by the way, of the pursuit of a 2% core inflation goal that the Fed is never going to hit because of technology, demographics, excessive debt. In the interim, they are chasing a core inflation target that they have not reached in five years and that they will never reach. And in the interim, what they have done is they have created inflation, rapid inflation of financial assets. That is not a sustainable model. Focus on the yield curve, the gap between short-term rates and long-term rates. It is flattening. When it inverts, we invariably get a recession of bear market. This is something we are focusing on very closely at Gluskin Sheff. It has not inverted yet, but, once again, this is classically late cycle.

The question then is just how late? Sixth inning? Seventh inning? Just how late are we? To answer that question, what we did was we took a whole bunch of different market and macro variables, credit spreads, price earnings multiples, unemployment rate, unemployment to population ratio, industry operating rates—a whole bunch of different things—and we did not do a peak to trough or trough to peak. I will not get too technical, but we just looked at what the percent reversal was in all these things from the previous bear market

and recession condition to way back in time to get some data points. Lo and behold, we figured that in the U.S.—and by the way, in Canada as well—we are about 90% into the cycle. The Year of the Dog, basically, says enjoy it while it lasts. We have about another year left in the tank.

What does that mean? It does not mean that you have to go out and buy baked beans and canned tuna fish and sawed-off shotguns and barbed wire. It just means that we need to know where we are. When people ask me what keeps me up at night, I guess what keeps me up at night is Where is my blind spot? It is not about being bullish or bearish, perma-bull, perma-bear, these labels. It is about being empowered, knowing where we are on the business cycle, so we can prepare, because across that whole continuum of the cycle is an optimal asset mix recommendation and an optimal equity sector recommendation. It behooves the economist to not worry so much about the next employment number or what Stephen Poloz is going to do next week. Help investors identify where we are in the business cycle, so they can protect their capital and grow it over time. I wish I could come to you and say we are in the first three innings. At some point two years from now, we will be back in the first three innings because the cycle is a cycle, but, right now, we are basically between the 7th inning stretch and the middle of the 9th inning. I am not saying, "End game." I am saying, "Late game." It means a completely different investment style. It means you become more cautious. It means you take risk off the table. It means in your equity portfolio, be very mindful of your GDP sensitivity.

It means focus on companies that did not work last year. You want to focus on companies that have earnings visibility, predictability, not volatility. Save that for the early stage of the cycle.

It also means that as the Fed raises rates and short-term and mid-term rates go up in the next year—classic late cycle—how you want to be in your bond portfolio is very important. It means credit hedge funds, long, short strategies in the fixed income market with very low correlation with the stock market: Classic late-cycle investment strategies.

You mention late cycle, and people get nervous. Late cycle, late cycle, late cycle, but we are just talking North America here. Canada, God bless us, we are 2.5% of the world's capital market. The U.S. is another 35%. There is another 60% out there. We have got to think outside of our box. There is $40 trillion of investable, blue chip, liquid listed companies on the other sides of both oceans. You can play late cycle in North America where the menu is a lot narrower, or you can basically go to other jurisdictions around the world that are more mid-cycle, with better politics, by the way, better valuations and are at a different stage of the cycle, more 5th inning than 7th, 8th inning.

I just want to bring up my one positive idea of the year, which is Japan, which was asleep for so long, but now it is super-Abe! Abe got re-elected on October 22nd with a huge mandate. The Nikkei is up 10% since he got elected in October. I do not see people calling it the Abe rally. Oh, but it is the Trump rally. In any event, there is a lot of very interesting

things happening in Japan that you might not know.

People say to me, "Why would you ever want to invest in a country whose population is going down? Who cares about the population of Japan? What does that have to do with Sony?" What you care about, as an economist, is what the income is that the population is spinning out. Ultimately, if you are buying profits, profits is part of national income. The female participation rate under Abe—did you know that 1.5 million women have joined the labour force in Japan since Abe got elected for the first time five years ago? Nobody knows that. That is adding national income. What else? That is a big taboo that has been broken—women entering the labour force? What else?

What about foreign entry? You can actually get a five-year work visa in Japan now. Unheard of. As H-1B visa applications in the U.S. are down 40%—that is what I was on what I was at Merrill—foreign immigration of labour in Japan is up 7%. I have got news for you. They are generating income. As you can see it for yourself: Ten quarters in a row of positive growth. They have broken the back of deflation, but look at the chart of profit margins. Profit margins in Japan have gone up to an all-time high, and they are still rising, and, yet, their stock market only recently broke out. It is one of the only stock markets in the world where margins are at an all-time high, but their stock market is still 40% below its previous peak. You are not going to find that in too many jurisdictions in the world.

Abe got elected in October, and, in the past couple of months, you could see a definitive breakout in the Japanese stock market. This is very exciting for me. Japan is five times the size of the Canadian market. This is a market that we can understand. It is liquid. We can invest in it. I would submit to you that this is not just a 2018 story. Last year, the Nikkei was up 20% with 20% profit growth. The U.S. was up 20% with 10% profit growth. This is actually a secular thematic, which means that this is going to have legs that goes beyond the Year of the Dog.

I quoted a lot of people, but I did not quote my one hero of all time, which is Bob Farrell. People in the room know that Bob Farrell was a big mentor of mine. Do you remember the chief strategist for Merrill for 5,000 years? He was splitting the Red Sea with Charlton Heston in the Ten Commandments. You know who he is. Bob Farrell's rule number one out of his "Ten Market Rules to Remember," which is the "Ten Commandments" for investing—by the way, everybody at Gluskin Sheff has Bob Farrell's "Ten Market Rules" pasted on their Bloomberg terminal. Rule number one is mean reversion. Wash, rinse, repeat. This year, mean reversion. Actually, it works in both directions because take a look at Japan. Even though we are in a nascent bull market, look at the share of the Japanese market relative to the overall global stock market. It is at 6.5%. The long-run norm is 8.5%. I would submit to you that if this chart mean reverts, that alone will give you 30% upside. I am not giving a date, but 30% upside to a market is actually very under owned, underappreciated and undervalued. That is where you want to be invested.

I wrote about this late last year. The National Post picked it up. Top 15 reasons why investors should love Japan. For those of you that think I am a perma-bear when it comes to Japan, I am a perma-bull. I love Japan. I was actually hoping we would be served chicken teriyaki, today, so I was actually very disappointed, but [remarks in Japanese] Happy New Year. All the best. Thank you.

Nick Barisheff

Thank you. It is a pleasure to speak, once again, at the Empire Club—just like David, but I have only been here eight times instead of nine. I love always following him because then I do not feel like a lone wolf in the wilderness.

I have always believed that the future price per gold is best understood through long-term irreversible trends. Today's macro trend changes are part of a looming tectonic shift that started decades ago and has not been adequately reported by the media. For example, since the 2008 financial crisis, the Bank for International Settlements introduced new banking rules to be implemented by 2019. These rules stipulated that gold bullion held in own vaults are on an allocated basis and can be treated as cash, and therefore risk rated at zero.

In addition, the U.S. Federal Deposit Insurance Corporation adopted a new rule in August 2012 that also stated gold bullion held in a banking organization's own vault or held in another depository institution's vaults on an allocated basis can be rated 0% risk. It will be interesting to see how the Canadian securities regulators reconcile this paradox,

by forcing retail gold bullion mutual funds to be rated as high risk, using standard deviation, while the central banks and commercial banks are allowed to rate their gold bullion holdings as risk free.

Under the Gold Shari'ah Standard, which was adopted at the end of 2016, gold trading has now been approved for the $1.9 trillion Islamic finance industry. The other monumental change is the growing importance of the Shanghai Gold Exchange. The contracts on the new exchange will be physically settled and will be traded between bullion banks, refiners, producers and trading houses. In China, gold is money and is accepted as such by the general population.

Gold trading in London and New York is really the trading of large quantities of synthetic derivatives, which are completely detached from the physical markets, but which are distorting the price of gold. These derivatives are fractionally backed with about 99% settled in cash. There is no purchase of physical gold. While the ratio varies, it is typically 100 oz. of paper gold for every ounce of physical gold. Synthetic paper gold absorbs demand that would otherwise have flowed into the limited physical supply and resulted in much higher prices. In contrast, the Shanghai Gold Exchange is a physical spot price exchange that requires a seller to actually own the physical gold that they are selling. What a novel idea. Physical delivery is the norm, not the exception. The uncontrolled naked shorting of futures contracts, so prevalent on the COMEX, is not allowed. Sergey Shvetsov, Deputy Chairman of the Russian Central Bank,

recently stated the major goal-producing nations are tired of an international gold price that is determined in synthetic trading, having little to do with the physical gold market. In November of 2017, India, Russia, Brazil and South Africa, which are the major producers and users of gold, agreed to establish their own gold trading system using their own currencies. This bypasses the U.S. dollar. An implementation will begin in 2018.

While the Chinese Central Bank holdings remain, officially, at about 1800 tonnes, or only 1.5% of their FX reserves, China's true holdings are unknown as it acquires its gold through its sovereign wealth fund, which does not report its holdings.

A Harvard economics professor, Ken Rogoff, who served as an economist for the IMF, has recommended developing companies should sell U.S. treasuries and buy gold up to 10% of international reserves. A number of experts estimate that China already has approximately 6,000 tonnes.

The most important influence in 2018 and beyond is the announcement made in 2017 that China will establish a gold-backed petro-yuan. This will allow oil producers to sell oil to China in yuan, and then exchange yuan into gold via the Shanghai Gold Exchange. China is the world's biggest importer of oil. That means that the price of oil will eventually be set there, like it or not. Pricing oil in yuan will have a huge impact on the exchange value of the yuan, the U.S. dollar and, correspondingly, the price of gold. Iran, Russia, Venezuela, have already agreed to participate, and

we could soon see 5 million barrels a day traded not in U.S. dollars, but in Chinese yuan.

Previous attempts to price oil in other currencies were tried by Saddam Hussein and Muammar Gadhafi, and they were disasters for the regime, the leader and their citizens. However, Russia and China are not the same as Iraq and Libya.

The move away from U.S. dollars is a formal strategy by China and Russia meant to unseat the U.S. dollar from its dominant position as the world's reserve currency. Russia and China have already set up an international payment system as an alternative to the Belgium-based SWIFT system, which has been operating since 1973.

The Chinese yuan has been accepted as an 11% component of IMF's Special Drawing Rights, which many observers believe is destined to replace the U.S. dollar as the world's reserve currency. They have also set up the Asian Infrastructure Bank and the New Development Bank in direct competition to the IMF and the World Bank, capitalizing it with an initial $100 billion to be used by BRICS developing countries for infrastructure projects like the massive Silk Road project. All this put together is a massive trend change in the financial epicenter, moving from west to east, and a major pressure on the U.S. dollar continuing as the world's reserve currency.

Ever since I started my first fund in 2002, there have been many conspiracy theories, even books written, about the suppression of the gold and silver prices. In the past, these

have been dismissed by the mainstream media as conspiracy theories promoted by gold bugs and organizations like GATA. Now, it has become evident that the manipulation of the gold price has moved out of the conspiracy realm and into the mainstream.

German philosopher, Arthur Schopenhauer, said that "All truth passes through three stages: First, it is ridiculed. Second, it is violently opposed. Third, it is accepted as being self-evident." The manipulation of the gold price has moved close to the third stage, as a recent class action lawsuit for over $1 billion has been filed in New York and Toronto against the six major bullion banks and has been approved to proceed. Another class action suit is being formed in London.

The confirmation of the credibility of these lawsuits is evidenced by the fact that one of the defendants, Deutsche Bank, quickly entered into a settlement agreement, agreeing to pay $60 million for gold and $38 million for silver and, most importantly, agreeing to cooperate with the plaintiffs. All these will have a major impact on the gold price as the paper price diverges from a physical price. When you consider that there are 55 million ounces of futures contracts with only 1% available for delivery and 248 million ounces of unallocated gold on the LBMA, what could possibly go wrong?

This is the registered inventories, and the line on the bottom, which is almost flat, is the amount of physical gold to back those futures contracts.

When I wrote my book, $10,000 Gold, my forecast was based on the positive correlation of the U.S. dollar gold price and U.S. debt between 1970 and 2010. Since then, the rise of U.S. debt has accelerated, but the gold price experienced a puzzling correction that was due to the massive unexplained naked short sales of COMEX gold. These are just some examples: $2.4 billion in June 2017; $2.7 billion in 2015; $1.4 billion in 2014; $2.1 billion in 2013; and $21 billion in 2013. This is in a short space of time, often after closing when there are no participants present in the market. No legitimate trader would ever do this. Draw your own conclusions as to how legitimate this is.

Today, to normalize the relationship between the U.S. debt in gold, gold should be $1,900 per ounce. When gold is liberated from the paper price, the increase will surpass $10,000 per ounce. While most people find this incredulous, one only has to consider the relative amount of paper financial assets to physical gold and mine supply to appreciate how realistic this is.

There is about $294 trillion of global financial assets consisting of equities, bonds and mortgages. All of the gold ever mined in history is 187,000 tonnes, equal to about $8.5 trillion. ETFs purportedly hold 42 tonnes of gold. However, this gold is double counted, as it has been leased from central banks by Authorized Participants and has counterparty claims against these holdings.

When you eliminate the religious artifacts, jewelry and central bank gold, it leaves only about 40,000 tonnes of gold bullion equal to about $1.8 trillion.

This is how the breakout looks. Annual mine supply is

about 2,800 tonnes and has been in decline since peaking in 2016. It is projected that it will decline by 76% by 2029. New mines take about 19.5 years to get into production. No new major discoveries over 3 million ounces have been made since 2009. As a result, the only adjusting factor for increased demand is an adjustment in price. With the global financial system experiencing a condition not seen since 1929 of a simultaneous triple bubble in stocks, bonds and real estate sitting on a historically unprecedented pile of $270 trillion of unpayable government debt, subprime auto loans, student loan debt, margin debt and consumer debt, in addition to a very dangerous mountain of over $600 trillion of derivatives, conditions are set for a major market correction. This will result in a massive increase in the price of gold as investors flee to its historical safety.

What is the possible increase that can happen? In 1960, most investors and financial institutions held about 5% of their portfolios in gold. Today, individuals and investors hold less than one half of 1%. If global investors reallocated just 5% of their financial assets to gold, that would be $14.7 trillion of increased demand trying to purchase less than $1.8 trillion of privately held gold. The current price would have to rise by at least eightfold to $10,560 per ounce. However, there is far less than $1.8 trillion of above-ground bullion because most of the privately held gold is owned by the world's wealthiest families for generational wealth preservation, and is not likely to be sold at any price.

When the shift becomes obvious, it will be too late to

purchase the insurance that gold has offered for over 3,000 years. You cannot buy insurance during a hurricane. When doing so, it is important that you buy physical bullion, and store it on an allocated, insured basis and not any paper proxies or derivatives, such as ETFs, futures contracts or certificates. These proxies can defeat the very purpose of holding bullion, as there is a very high risk that these instruments will fail at exactly the time when you need your gold the most.

As I have said before, the best time to plant a tree was 20 years ago. The second-best time is today. Thank you.

Note of Appreciation, by William White, Chairman, IBK Capital Corp. and Director, Empire Club of Canada

Madam President, distinguished Head Table Guests, fellow members and guests of the Empire Club of Canada, I have the pleasure to express our formal thanks to our key three speakers and their firms, Ian Russell, President and Chief Executive Officer of the Investment Industry Association of Canada; David Rosenberg, Chief Economist, Gluskin Sheff + Associates Inc.; Nick Barisheff, President and Chief Executive Officer, Bullion Management Group Inc.

Gentlemen, what you did today, why you did it and how you did it helps each of us to better understand and embrace the capital markets for this new year. Each of your presentations pointed out how attractive this recent cycle has been, as

well as the challenges and the opportunity available in 2018 to all of us investors in this classic late cycle.

I would also like to thank the representatives of the Toronto Argonauts Football Club for joining us today, and, especially, a thank you to Matt Black and Tyler Holmes. They were educating me on blockchain, which was great. It made it a lot of fun. Matt Black, of course, is my hero. He intercepted the Calgary Stampeders' pass in the last moment of the game to actually end the game with a 27-24 win. He actually gave our household a great deal of joy because we are wonderful Argo fans. Congratulations, on a most successful season and for sharing the Grey Cup with us today.

For a number of you who wish to have your photo with this Grey Cup, please, do so before you leave. The photographer is down there. You can stick around as long as you wish.

In conclusion, please, join me now with a warm and special thank you to Ian Russell, David Rosenberg, Nick Barisheff, the Toronto Argonauts Football Club, Matt Black and Tyler Holmes.

Concluding Remarks, by Barbara Jesson

Thank you, Bill. I am having a very gratifying tenure as the President of the Empire Club. From time to time, people congratulate me on that. I always say that I deserve very little credit for it. I have two secret weapons. They are at either end of the Head Table.

The one is Gordon McIvor, who is a Past President of the Empire Club, and who told me that if I took this on, he would have my back. Boy, has he ever. The other is Bill White, who is a Director of the Club. I do not know how anyone serves on any board without a Bill White.

He is just a remarkable Director, and I am so grateful to him every day for his support and contribution to the success of this Club.

I also want to thank our sponsor because, without sponsors, we really could not hold lunches like we have, today, and learn about so many topics that I have enjoyed hearing about over the course of the past six months.

Our presenting sponsor, the Investment Industry Association of Canada; event sponsors, BMG Group Inc., IBK Capital Corp.; gold sponsors, UBS Bank (Canada), Canadian Securities Exchange, CFA Society of Toronto, WeirFoulds, Wildeboer Dellelce, Watts, Griffis & McOuat Ltd., thank you all so very, very much for making this event possible. We are extremely grateful.

Without sponsors like these, these lunches just would not be possible.

I also want to thank mediaevents.ca, Canada's online event space for webcasting today's event for thousands of viewers around the world.

Our club is active on social media. Please, follow us on Twitter at @Empire_Club, and visit us online at www.empireclub.org. You can also follow us on Facebook, LinkedIn and Instagram.

Finally, please, join us again at our next event on January 25th, with Lisa LaFlamme and Sally Armstrong, at One King West Hotel.Thank you for your attendance.

This meeting is now adjourned.