



June 2018
Trade Wars:
Trump, China and Canada
Accredited Investors Only

We believe that the global economy is closed, that cycles repeat, and that investors are emotional and can make mistakes. This time, it is not different, and history holds clues as to how global financial markets may evolve. In a closed economy, the only way the economy can experience growth is through stealing market share, opening a new market, population growth/demographics, or experiencing the introduction of a new technology innovation. Long periods of chronic, slow, economic growth, that reduces the standard of living of the educated middle class, can lead to the rise of populism. Elections in Italy, demonstrations in Brazil, and the recent election in the province of Ontario provide evidence that this rise in populism is not local, but global in nature. The era of globalization that started after World War II is coming to an end. The sooner investors realize this, the better.

History reveals, that every 80 years or so, the global economy needs a reset. Global imbalances get too large and the rise of populism puts pressure on those in power to take drastic action. Without an internal, rule-based adjustment system (that equalizes the economies that manufacture too much and consume too little, think Germany and China), military force is typically used to solve the problem. The Trump Administration is trying to get the global leaders to realize that the existing trading system can no longer be supported by the American economy. John Maynard Keynes warned of this in 1945 at Bretton Woods. You can't have a sovereign currency be the medium of exchange of the global economy and the global economy without a Trade Adjustment Mechanism. Countries will enter into currency wars, that devalue their currencies against the U.S. dollar, to make the products they produce more competitive. Furthermore, the World Trade Organization will be ineffective in solving trade disputes. Keynes also warned that eventually the country absorbing the excess capacity of the global economy (the USA) will reach its limits, thus changing its domestic policy to

protect its economy. We have reached that point.

The trade deficit of the United States equals the summation of the world's trade surplus. Since 1945, the USA has gone from a creditor nation to a debtor nation. With the unfunded liabilities growing, and because of its aging population, it must adjust. President Trump correctly states that the USA can no longer be the piggy bank that the rest of world borrows from. We have seen this narrative play out many times in history. In the past, military action has been the policy choice of action to remedy this problem. Let's hope history does not repeat.

The hollowing out of the manufacturing base, zero interest rates, quantitative easing and austerity has ushered in a period referred to as "The New Normal", or Secular Stagnation. Secular Stagnation is when chronic slow growth and declining standards of living gave rise to populism in the Western world. As many educated citizens realized that the policies of globalization did not deliver the economic fruits that were promised, voters surprised the elites and elected candidates that promised a new future. Think "Make America Great Again". This is not so much about Trump as it is about the middle class worker in the Western world wanting change. President Obama promised an era of "Hope and Change" and ironically President Trump is continuing on with this same narrative. The establishment will fight for the status quo, but investors must realize there is no turning back. With the election of Doug Ford as Premier in Ontario, the populist movement now has a strong foothold in the economic center of the country, investors need to discount the fact that the global economy is going through an adjustment period.

Dr. James E. Thorne
Chief Capital Market Strategist
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FUND DETAILS

INCEPTION DATE - SEPTEMBER 15, 2016

Management Fee	1.25%	RRSP Eligible	Yes
Performance Fee*	20%	Auditor	Deloitte LLP
Subscriptions	Monthly	Legal Counsel	McCarthy Tetrault LLP
Liquidity	Monthly	Administrator	SGGG Fund Services
Minimum Investment	\$10,000	Custodian	Caldwell Securities Ltd.

*Based on perpetual high watermark using series accounting, no reset, no hurdle rate.

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Dr. James E. Thorne is the Chief Capital Market Strategist and Senior Portfolio Manager at Caldwell Investment Management Ltd. He is also a member of Caldwell's Investment Risk Committee.

From February 2001 to September 2014, he held various senior investment management positions at M&T Bank and its wholly owned subsidiary, Wilmington Trust Investment Advisors, Inc. in the U.S., including Chief Investment Officer of Equities, Managing Director and Chief Capital Market Strategist. During his tenure, he was responsible for the management of approximately \$23 billion in assets and developed small, mid and large-capitalization investment strategies which employed a combination of quantitative and qualitative analysis and achieved top-quartile performance.

Dr. Thorne received a Ph.D. in Economics in the fields of Finance and Industrial Organization from York University in June 1993 and was subsequently employed as a Professor of Economics and Finance at the Schulich School of Business and at Bishop's University.

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