F&A Foster & Associates

Quarterly Report

Third Quarter Report 2019

ETFs with exposure to AI's world-changing capabilities exist, but they aren't yet as smart as the AI itself.

Investing in a general idea, like the concept that AI-enabled consumer products will become a consumer tsunami, is called thematic investing.

Do you remember when TVs had knobs? A lot of people don't. They can be identified by their frustration when they can't find a remote, and they are forced to actually get off the couch to turn on the TV. In 10 years time we may all feel their pain. By then, it's possible all home appliances and services will have embedded artificial intelligence (AI), and we will become equally frustrated when trying to use appliances made without it.

Personally, I think I'm ready for that future. After dealing with services like Amazon and Netflix, that always seem to know exactly what I'm looking for, I am starting to see how dumb my household appliances truly are. If my coffee machine was intelligent, it would hear me get up, start heating water, recognize me when I arrive in the kitchen and make my coffee the way I like it. When it was out of coffee, it would send me a text to refill it. I would pay more for that and I'm confident that the consumer of tomorrow would too, just to make sure the caffeine keeps flowing. And as our expectations for our products and services keep rising, it's likely consumers will expect that AI applications are built into all of our appliances and services.

Investing in a general idea, like the concept that AI-enabled consumer products will become a consumer tsunami, is called thematic investing, and thematic investing is generally best done by ETFs. You think small-capitalization biotechnology funds are going to be where it's at? There's an ETF for that. Large Cap African companies? There's an ETF for that as well. Whatever your interest, some enterprising fund company will cater to it. For artificial intelligence, the most widely-followed AI ETF in Canada is the RBOT ETF, from Horizons ETFs, which tracks the Indxx Global Robotics and Artificial Intelligence Thematic Index.

But the problem with investing in the artificial intelligence theme is that some of the biggest users of artificial intelligence aren't really in the artificial intelligence business. Take Google, for example. About five years ago, Google acquired DeepMind Technologies, a UK-based leader in AI, for US $500 mil. You may remember when it was reported that the Google DeepMind program "AlphaGo" had beaten an 18-time world Go champion, Lee Sedol, for the first time. Up until then, games like Go, that rely on complex strategy, were considered the last area where human grey matter could maintain dominance, at least in the gaming world. Yet Google isn't included in RBOT. How can this be? Well, Google is actually a US $850 bil internet/advertising company, with lots of different business lines. And as important as AI is to their future, it's not really their product; it's more their competitive advantage.

		2019 Q3	12 Month Returns
S&P/TSX*	16659	1.7%	16.3%
S&P 500	2977	1.2%	2.2%
Dow Jones	26917	1.2%	1.7%
Nasdaq	7999	-0.1%	-0.6%
$CAD	$0.7553	-1.1%	-2.5%
Crude Oil (WTI)	$54.07	-7.2%	-30.0%
Gold	$1,472.40	4.5%	23.5%

** The S&P/TSX, the S&P500, the Dow Jones and Nasdaq indices are not investable indices, and as such are not a direct comparison to any investment product available at Foster & Associates Financial Services Inc, and therefore should therefore be considered hypothetical in nature and for illustrative purposes only.*

The same holds true for Facebook, another heavy user of AI for advertising and user engagement. And Salesforce and Netflix. And even Tesla. None of them are in the index.

But if these companies are not in the RBOT ETF, what is? Typically, they are the companies directly in the AI business and in large part they are Japanese. They are chipmakers, semiconductor makers, and electronics companies, companies such as Mitsubishi Electric Corporation, makers of everything from industrial machinery to household appliance. In fact, 47% of the holdings of this ETF are Japanese.

Continued on next page

Continued from previous page

So, what to do? A complement to the RBOT ETF is the high-flying QQQ ETF. This tech-laden ETF, tracks the Nasdaq 100 Index and contains the largest non-financial companies listed on the Nasdaq exchange. And while it certainly includes some non-heavy users of AI (Starbucks, for example), AI heavyweights such as Microsoft, Amazon, Facebook, Alphabet, and Netflix make up over 35% of the ETF. Maybe not a bad way to get solid AI exposure, all for 20bp annual expense ratio. And if you're worried about the currency exposure, iShares offers a version of the QQQ that hedges the holdings back to Canadian dollars.

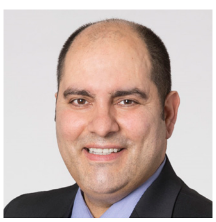
Unfortunately, getting exposure to AI's world-changing capabilities is unlikely to be a fix-it-and-forget-it type of investment. The landscape will surely change dramatically over the next few years, making the preceding commentary quaintly archaic. Watch this space.

The 12-Month Market Outlook

Stocks (U.S.)	▲
Stocks (Canadian)	▲
Bonds (US)	▼
Bonds (Canadian)	▼
Canadian dollar	--
Crude Oil	--

This table represents the way the firm is leaning in particular market sectors over the next 12 months. It does not represent a trade recommendation, nor does it play a major role in our portfolio construction, which involves much more than having a view on a particular market index, currency or commodity.

ADVISOR INTERVIEW with Chris Chatzimichalis, Investment Advisor speaking to our readers about one of his top holdings.



CHRIS CHATZIMICHALIS

Canoe Global Equity Fund - F Class

Price, Sept. 30/19:
$51.30

Price, YE 2018:
$43.67

Market Cap:
$238 mil

Expense Ratio:
1.96%

Chris, I see that the Canoe Global Equity Fund is one of your key holdings. Can you explain to our readers what you like so much about it?

CC: To me, the Canoe Global Equity Fund is the definition of a Growth Fund. Its mandate is to seek long-term growth through a strict company selection process worldwide. The best part is that it's the kind of fund that makes an investor disregard the market ups and downs, knowing that only the best companies will be part of the fund - allowing my clients to sleep at night, knowing that market fluctuations will have little impact on the growth potential of the fund long-term.

What role does this fund play for your clients?

CC: This fund is for the most aggressive growth element in client accounts, where we are looking to outperform most alternate investments, in the long run.

What would make you reconsider investing your client money in this fund?

CC: I have met with the management team several times. If at any point their demanding company selection criteria changes, then I will reconsider my recommendation of this fund.

This fund has performed very well over the years. Why is that, do you think?

CC: Part of their security selection process is that they seek companies that have strong management culture, strong long-term results, and have leading roles in their respective industries. Then the team at Canoe engages in a continuous evaluation and review process.

The views as articulated in this interview are those of Chris Chatzimichalis alone and do not necessarily reflect the opinion of Foster, and do not constitute a solicitation to engage in any specific investment or strategy.

Coping with Change

Briar Foster
is the founder and former CEO/Chairman of Foster & Associates Financial Services Inc (Foster), and remains a Board Member of FAFS Holding Corporation, the parent company of Foster.

When people shake their heads because we are living in a restless age, ask them how they would like to live in a stationary one, and do without change.

George Bernard Shaw

Part of being a successful investor is being open to change, sometimes eagerly embracing it. Styles, prices and menus change, relationships evolve and climates change. Sometimes change fills us with wonder and presents modern miracles. Other times change initially appears positive but then disappoints.

Retail stock market investors have faced significant change in recent decades. For one, institutions now dominate stock market trading. The many leading securities priced over $100 are obviously there for institutional consumption. Share splits to attract retail investors are now a rare event. Increasingly, the individual investor is being steered into investing in "products" assembled by the institutions, rather than to own individual securities.

Most dramatic has been the ascent of technology companies that are now the stars of the financial markets, particularly the FANG stocks (Facebook, Amazon, Netflix and Google) and such nephews and nieces as Shopify and Uber. Spurned have been junior resource stocks which are now rarely mentioned in the financial pages. The senior base metal and forestry companies are relegated to a sub-index called materials.

But in fairness, technology has delivered many blessings. The delivery of medical services is faster, safer and more accurate thanks to technology. The cost of post-secondary education has become much cheaper as more courses and even degrees are offered online. Security companies need fewer staff to monitor sites. The automotive industry earned a welcome boost in interest with the technological enhancements on the new models. Automakers have also benefited from the environmentally-induced trend towards electric cars.

So how should investors adjust to these changes? What areas have above average investment potential? Investing directly in emerging technology companies requires considerable expertise, and social media companies face uncertainty over the imposition of restrictive regulations and additional taxes. Instead, it might be better to look at those industries that will benefit from the new technologies, rather than those that produce it.

Senior care is one such industry. As well as being the most rapidly growing segment of our population, seniors have the wealth and the votes to obtain the very best. The looming shortage in senior-care accommodations is well documented. Technology can provide the convenience of remote health monitoring and a more stimulating environment.

The transportation industry also looks poised to provide investment opportunities. Urban centers require a reduction in automobile traffic. Diesel buses, cars and trucks have turned urban arteries into smelly parking lots. Public transportation, electric vehicles, modified golf carts, bicycles and drones will be part of the solution. In addition, some jurisdictions are experimenting with "free" public transportation to reduce automobile traffic.

The investment opportunities in large engineering companies could also be part of the long-awaited and forever-promised boom in infrastructure spending. Along with transportation projects are upgrades for schools, hospitals and airports. Environmental upgrades for government buildings and office towers are becoming mandatory.

Investors are facing a period of significant change as the old economy is fading in importance. But Canadians should have no trouble accepting this. Our climate and geography offer great diversity. Our national weather ranges from -30C to +30C. No single culture dominates our national character. Diversity is truly Canada's strength.

Briar Foster, September 29, 2019

The views as articulated in this article are those of Briar Foster alone and do not necessarily reflect the opinion of Foster, and do not constitute a solicitation to engage in any specific investment or strategy.

Our core beliefs

What defines the culture of a firm is what stays consistent no matter what's going on in markets. Politics, market trends, and the business cycle will cause us to think different about the way we invest our clients' money. However, there are a few things you can count on from us, through good markets and bad, through recessions and buoyant recoveries:

Asset Allocation is Key.

While some individual securities will do well, and some less well, most of what will make or break your portfolio over time is asset allocation. Of course, we all remember our great buys, and mourn our missteps, but the key to how well you do in the markets will come from how much you owned of various asset classes, and when you owned them.

We Love Canada.

But it's not where we want to put all your money. The Canadian stock market is heavy on banks and resource companies, making true diversification hard to achieve. Venturing abroad can improve returns and lower volatility. You'll also find companies where Canada isn't as strong, such as in consumer staples and biotechnology.

Alternatives aren't that Scary.

HEDGE FUNDS
PRIVATE DEBT
REITS

Sure, some hedge funds can be dangerous, but there's more to the Alternatives space than hedge funds. There's private debt, real estate, infrastructure and market-neutral funds, all of which can provide a place of refuge during periods of excessive market volatility.

Costs matter a Great Deal.

Over time, even small increases in costs can significantly lower returns. If you pay us to manage your money, we will pinch your pennies for you.

1994 - 2019
25
FOSTER & ASSOCIATES

Foster & Associates Financial Services Inc.
372 Bay Street, Suite 1100, Toronto, Ontario, M5H 2W9
Main:416.369.1980 TF:1.800.559.8853 www.fostergroup.ca

DISCLAIMER: Estimates and projections contained herein represent the views of the writer, and are based on assumptions which the writer believes to be reasonable. This information is given as of the date appearing on this report, and the writer and Foster & Associates Financial Services Inc ("Foster") assume no obligation to update the information or advise on further developments relating to securities. The material contained herein is for information purposes only. This material is not intended to be relied upon as a forecast, research or investment advice, and is not to be construed as an offer or solicitation for the sale or purchase of securities, or as a recommendation for you to engage in any transaction involving the purchase of any Foster product. Investors should carefully consider the risks of investing in light of their investment objectives, risk tolerance and financial circumstances.