



WARATAH

Second Quarter 2019 Waratah Investor Letter

Dear Investor,

	Q2 2019	YTD 2019	Average Annual	Annualized Volatility
Waratah One	1.1%	3.7%	6.0%	3.4%
Waratah One X	1.5%	4.8%	8.3%	4.8%
Waratah Performance	1.9%	10.2%	11.1%	7.4%
Waratah Income	1.2%	10.3%	6.9%	6.2%

Waratah One, One X and Performance Fund

Commentary by Brad Dunkley

Global equity markets continued to move higher during the quarter with commentators pointing to hopes of an end to the China-US trade war and strong indications from the Federal Reserve that rate cuts are coming. I find it remarkable that equity markets are interpreting interest rate cuts as being a good thing. I am more concerned that these cuts and the inverted term structure of bonds globally are indicative of the very real possibility of a recession. Recessions are part of the business cycle and we have had ten of them since the end of the Second World War. Recessions help to curb excessive risk taking, expose those who were cheating with too much leverage and lead corporations to find more efficient ways of doing business. But these are not normal times. Interest rates are nearly zero in North America and are negative throughout most of Europe and Japan. Our political leaders and monetary authorities have taken a view that we must avoid recessions at all costs. President Trump wants to get re-elected and his entire sales pitch is based on the economy. Central bankers fear a recession because they have no idea what they will do to stimulate a recovery when starting from zero or negative rates. This is the classic metaphor of “pushing on a string”. Worst of all, the President and the central bankers don’t realize that the decision