

The Market in Review

Paul Siluch, Lisa Hill, Peter Mazzoni, and Sharon Mitchell
Financial Advisors
Raymond James Ltd. – Victoria BC

April 13th, 2017

This week's articles and insights

- 1. Summing Up the World*
- 2. Growth in Canada*
- 3. Investments This Quarter*
- 4. Renewal*

“I am proud to be paying taxes. The only thing is, I could be just as proud for half of the money.”

-Arthur Godfrey

April marks the 100th anniversary of Canada's income tax, introduced during the First World War.

In the words of the government of the day, “If young men are to be conscripted, wealth should be too.”

It was intended to be a temporary wartime measure.

Your Index Report

	Current	Last Week	Year-to-Date
Dow Jones Ind. Avg.	20,453	-0.98%	+ 3.49%
S&P 500	2,329	-1.13%	+ 4.03% (+3.14% in \$CDN)
TSX	15,535	-0.84%	+ 1.62%

Summing Up the World

We are at an interesting point in the world of financial affairs. We are reminded daily of how precarious things are, and yet somehow, the world hasn't ended. In many cases, conditions have actually gotten better.

Let's review:

Political uncertainty remains high. Europe has a number of elections in 2017 and the fear is that a Brexit-style rebellion will occur somewhere else on the continent. The Netherlands dodged the bullet in March when the existing leaders returned to power and the far-right challengers were sent packing. France is next. The centre-right party appears to be holding the far-right Marine Le Pen at bay.

In America, the current Republican president is following in the footsteps of every past Republican president since 1980 by bombing a country (Grenada under Reagan, Iraq under Bush Senior, then Afghanistan and Iraq under Bush Junior). The recent US missile attack in Syria has upset the delicate balance of power between Russia and US forged since the November election. Trump, to no one's surprise, is proving to be as unpredictable as a ruler as he was as a candidate. In this case, it may actually be an advantage because no one knows what to expect. It is hard to see this bringing the war to an early conclusion, however.

The biggest flash point right now is North Korea. Recent evidence points to Kim Jung-Un being closer to possessing a hydrogen bomb than first thought. And because he knows what happens to rogue states without nuclear weapons (Iraq, Libya), an escalation could get out of control quickly if he is pushed. We have to remember, though, that North Korea's bluff and bluster have led to nothing for over 70 years.

We'll count Political Uncertainty as a negative right now.

On the **Economic Conditions** front, growth is strengthening in Europe, the US, and Canada. The risk, therefore, of all of us tipping over into recession is remote. Very few signs are present that would indicate a global slowdown. Some indicators point to a pause of sorts in the United States, which would not be a surprise after the torrid pace of the last six months. This could slow the rate of interest rate increases, which is positive for stocks.

We'll count Economic Conditions as positive.

Finally, **Valuations**. US stocks are among the most expensive in the world, but have the growth to back up most of their elevated ratios. The banks will benefit from the surge in new companies listing their shares, as well as the jump in mergers and takeovers. Employment numbers have been strong, particularly up here in Canada. While stocks in North America are likely fairly valued, those in Europe and the Emerging Markets are well below those over here. We are starting to see money flows shift from here to there as investors move to greener pastures.

There are early signs of speculation, such as the nosebleed valuation of Tesla (**NASDAQ TSLA**), which is now worth more than both Ford (**NYSE F**) and GM (**NYSE GM**), even though Tesla produces barely 100,000 cars per year compared to Ford's 7 million vehicles. Chalk this up as something to watch. It is not so much that stocks are at the high end of their valuation range, but that stocks fall harder if they are expensive when a recession hits.

Valuations, then, are fair-to-high in North America, and fair-to-low in Europe and the Emerging Markets.

Overall?

The period from November through April is generally friendly to stocks. We have enjoyed a sharp rally in the last six months, which validates this seasonal lift. The period from May through October is typically less friendly to stocks, and we are approaching that period now. We are due for a mild decline in stock prices. Canadian and US stock indexes have been churning in place for the past two months, with prices today at the same levels as mid-February.

Since we remain far from recessionary conditions, however, stocks should still have further to run. We expect earnings in Q2 (just ahead) to be strong.

We expect to be buyers if such a decline ever arrives.

Growth in Canada

Canada has enjoyed several quarters of economic growth that has been above expectations. In March, even Nova Scotia added 4,600 jobs. Compared to the dismal state of affairs in March of 2016, when oil was just recovering from its US \$27 low, things are looking up.

So why hasn't Canada begun raising interest rates? Our benchmark interest rate has been stuck at 0.5% since 2010 even as the US has raised their rate three times.

"It's largely demographics," says Brian DePratto of the TD Bank (source: Advisor.ca). The Bank of Canada has noticed we are getting older as a population, which will mean fewer and fewer young workers, lower employment and hours worked, and slipping productivity. While the Bank of Canada expects a strong 2.6% growth rate this year, it sees 1.9% in 2018 and 1.8% in 2019.

We suspect a lower Canadian dollar is the unspoken goal of Canadian monetary policy. We are an exporting nation and a weak loonie helps our prices. The Bank hinted at its first rate increase by 2018, which says they are in no hurry.

Investments This Quarter

While we have generally invested RRSP and TFSA contributions, at the portfolio level we are largely waiting for lower prices to get more excited about new equity positions. Our portfolios, and those of many of our outside managers, may hold higher amounts of cash to reflect this.

At the individual stock level, we have been busy scouring the new ideas. In particular:

Oil

- The energy sector was probably the weakest sector in the first quarter of 2017. The "global glut" of oil is gradually being worked off, though, so we are actively looking for producers or pipelines that fit our dividend + value preference. Stay tuned. We are getting closer. Some utilities also fit this list.

Drugs

- As mentioned above, even Canada's Central Bank has noticed we are all getting older. The traditional "big pharma" stocks are not the only ones bringing new cures and treatments to market. Some of the younger biotech companies are now as big as their older peers. We are doing a deeper dive into one biotech company that has fallen on hard times, but presents good value. It even pays a 3% dividend.

Emerging Markets

- Imagine investing in something that has lost you money over the past ten years. That's the emerging markets, as a whole. The price of the leading exchange-traded unit for emerging markets sits at the same price it did in July 2007.
- What's different? Many of the leaders then, like Brazil and Russia, are now very cheap due to the collapse in commodity prices and poor governance. Others, like South Korea, have seen political leaders go to jail, not to mention North Korea at its border. There are also new growers that are ascending the ranks of world growth, such as India and Indonesia. India will be the world's most populous country within a decade, and Indonesia is projected to become the 4th largest economy by 2050, just behind the USA (source: PWC Global).
- In particular, Lincoln is evaluating an investment fund in India.

Referrals are the nicest way to grow any business. If you have friends or colleagues who could be helped by our commitment to prudent investing and world-class, personal service, we'd be delighted to hear from you and to gently follow up with them.

*Just call us at (250) 405-2417 and we'll take it from there.
Thanks!*

Renewal

This Sunday marks Easter, the most joyful day of the Christian calendar. We approach Easter after the long forty days of Lent with its prayer and fasting. We then warm up with Maundy Thursday – the commemoration of the Last Supper. Good Friday commemorates the event of Christ’s crucifixion, and finally Easter Sunday celebrates the resurrection and the forgiveness of His transgressors.

Like Christmas, Easter has pagan roots. Christianity, like all faiths, was built upon the foundation of beliefs that came before it. The name itself came from a number of possible sources. The Sumerian goddess Ishtar was similarly hung upon a stake and resurrected. The pagans of northern Europe had a spring festival called Eostre whose symbol was a rabbit. The word ‘Easter’ could have derived from either Ishtar or Eostre.

Other Easter traditions predate Christianity. The exchange of eggs, for example, was an ancient custom taken up by early Orthodox Christians as a symbol of the resurrection. Jewish bakers were making sweet buns since Old Testament days. A ‘hot cross’ was added when Christian church clergy were unable to put a stop to the practice. They relented by blessing it instead.

Easter is normally celebrated about two weeks apart by the Orthodox Church and western Christianity. The former refused to adopt the Gregorian calendar in the 1500s, which dropped about fourteen days from the Julian calendar to correct for the changing length of a year. All countries of the world use the Gregorian calendar now, but the Orthodox church has stuck with the historic Julian version. As it happens, both faiths will celebrate Easter together this year on April 16th. This will not happen again until 2034.

The concept of rebirth is common in the human narrative, both in our faiths and in the business world. Most companies meticulously write out business plans only to see them barely survive their first year.

“No battle plan survives contact with the enemy.”

- Helmuth von Moltke, German military strategist

Even successful companies have to reinvent themselves to survive. Studebaker began as a horse buggy company in 1852, for example. Seeing the changes coming to its industry, the company introduced a gasoline-powered automobile in 1902 and remained in production until its demise in 1966. American Express began its corporate life as a pony express company delivering mail in the American west. When it started offering money orders to its customers, it quickly realized they were more profitable than mail and ditched the horses.

Today, we are witnessing the resurrection of Blackberry (**NASDAQ BBRY**), the Canadian company that invented the smartphone, as it re-emerges as a security software company. The changes have been wrenching to both employees and shareholders, but the company just might pull it off.

In the spirit of renewal, rebirth, and resurrection, we wish you all a happy Easter.

<http://www.raymondjames.ca/siluchhill/>

We thank you for your business and your referrals and we hope you find our site user friendly and informative. We would welcome your comments.

How to contact us:

paul.siluch@raymondjames.ca

lisa.hill@raymondjames.ca

peter.mazzoni@raymondjames.ca

(250) 405-2417

Disclaimers

The information contained in this newsletter was obtained from sources believed to be reliable, however, we cannot represent that it is accurate or complete. It is provided as a general source of information and should not be considered personal investment advice or solicitation to buy or sell securities. The views expressed are those of the authors, Paul Siluch and Lisa Hill, and not necessarily those of Raymond James Ltd. Commissions, trailing commissions, management fees and expenses all may be associated with mutual funds. Please read the prospectus before investing. The indicated rates of return are the historical annual compounded total returns including changes in unit value and reinvestment of all distributions and do not take into account sales, redemption, distribution or optional charges or income taxes payable by any security holder that would have reduced returns. Mutual funds are not guaranteed, their values change frequently and past performance may not be repeated. This newsletter is intended for distribution only in those jurisdictions where Raymond James Ltd. is registered as a dealer in securities. Any distribution or dissemination of this newsletter in any other jurisdiction is strictly prohibited. This newsletter is not intended for nor should it be distributed to any person in the USA. Raymond James Ltd. is a member of the Canadian Investor Protection Fund.

Raymond James does not accept orders and/or instructions regarding your account by e-mail, voice mail, fax or any alternate method. Transactional details do not supersede normal trade confirmations or statements. E-mail sent through the Internet is not secure or confidential. We reserve the right to monitor all e-mail.

Any information provided in this e-mail has been prepared from sources believed to be reliable, but is not guaranteed by Raymond James and is not a complete summary or statement of all available data necessary for making an investment decision. Any information provided is for informational purposes only and does not constitute a recommendation. Raymond James and its employees may own options, rights or warrants to purchase any of the securities mentioned in e-mail. This e-mail is intended only for the person or entity to which it is addressed and may contain confidential and/or privileged material. Any review, retransmission, dissemination or other use of, or taking of any action in reliance upon, this information by persons or entities other than the intended recipient is prohibited.

This email newsletter may provide links to other Internet sites for the convenience of users. Raymond James Ltd. is not responsible for the availability or content of these external sites, nor does Raymond James Ltd endorse, warrant or guarantee the products, services or information described or offered at these other Internet sites. Users cannot assume that the external sites will abide by the same Privacy Policy which Raymond James Ltd adheres to.

Commissions, trailing commissions, management fees and expenses all may be associated with mutual fund investments. Please read the prospectus before investing. There can be no assurances that the fund will be able to maintain its net asset value per security at a constant amount or that the full amount of your investment in the fund will be returned to you. Mutual funds and other securities are not insured nor guaranteed, their values change frequently and past performance may not be repeated.

Blackberry Inc. - Raymond James Ltd - the analyst and/or associate has viewed the material operations of BBRY. Raymond James & Associates makes a market in shares of BBRY.

Prices shown are as of close April 13th, 2017.

You are receiving this message because our records indicate that you have requested this information. If you no longer wish to receive research from Raymond James, please reply to this message with unsubscribe in the subject line and include your name and/or company name in the message. Additional Risk and Disclosure information, as well as more information on the Raymond James rating system and suitability categories, is available at www.rjcapitalmarkets.com/Disclosures/Index.

To unsubscribe and no longer receive any email communications from this sender, including information about your account, please either click [here](#) or send a reply email to the sender with [UNSUBSCRIBE] in the subject line.

Pour vous désabonner de cet expéditeur soit cliquer [ici](#) ou envoyer un e-mail de réponse à l'expéditeur avec [UNSUBSCRIBE] dans la ligne d'objet.

This email, and any files transmitted, is confidential and may contain privileged information. Any unauthorized dissemination or copying is strictly prohibited. If you have received this email in error, please delete it and notify the sender immediately. We may monitor and review the content of all email communications. Trade instructions by email or voicemail will not be accepted or acted upon. Please contact us directly by telephone to place trades. Unless otherwise stated, opinions expressed in this email are those of the author and are not endorsed by Raymond James. Raymond James accepts no liability for any errors, omissions, loss or damage arising from the content, transmission or receipt of this email. Raymond James Ltd. is a member of the Canadian Investor Protection Fund.

Le présent courriel, de même que tout fichier transmis en pièce jointe, est de nature confidentielle et peut contenir des renseignements privilégiés. Toute diffusion ou reproduction en est strictement interdite. Si vous avez reçu ce courriel par erreur, veuillez le supprimer et en informer immédiatement l'expéditeur. Nous pouvons surveiller et examiner le contenu de toutes les communications électroniques. Les instructions portant sur des opérations, données par courriel ou dans une boîte vocale, ne seront pas acceptées ni exécutées. Veuillez communiquer avec nous directement par téléphone pour donner des ordres en bourse. Sauf indication contraire, les avis exprimés dans le présent courriel sont ceux de l'auteur et ne sont pas avalisés par Raymond James. Raymond James décline toute responsabilité en cas d'erreurs, d'omissions, de pertes ou de dommages découlant du contenu, de la transmission ou de la réception du présent courriel. Raymond James Ltd. est membre du Fonds canadien de protection des épargnants.
