

The Market in Review – June 23rd, 2017

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

June 23rd, 2017

This week's articles and insights:

1. *How Long Will You Live?*
2. *Amazoned*
3. *Short-Term, Medium-Term, and Long-Term*
4. *Did It For Dad*

“We've had three big ideas at Amazon that we've stuck with for 18 years, and they're the reason we're successful:

Put the customer first. Invent. And be patient.”

- Jeff Bezos

Your Index Report

	Current	Last Week	Year-to-Date
Dow Jones Ind. Avg.	21,395	+0.05%	+ 8.26%
S&P 500	2,438	+0.21%	+ 8.91% (+7.46% in \$CDN)
TSX	15,320	+0.84%	+ 0.21%

How Long Will You Live?

Since humans began recording stories and legends, the mystery of life and death has been our primary question. *When will the end come for me?*

Most people died at work, on the battlefield, or in childbirth throughout history. If you made it to 50, you were really old.

In the modern day, leisure and wealth gave us the concept of retirement. This, in turn, led to the bigger question: *When will the end come for my money?*

In 2016, the average life expectancy worldwide is 67 for men and 71.1 for women (The World Factbook). Sierra Leone and Angola have the lowest life expectancies while Japan and Switzerland have the highest. Women live longer than men in every country but two, thanks to men's propensity for high risk behaviour in adolescence (as demonstrated by the male phrase "*Watch this!*").

Once we leave the high-mortality teenage years for men and childbirth years for women, life expectancies extend even longer. In the US, a man who reaches the age of 65 today can expect to live until age 84.3, on average. A woman reaching 65 today can expect to live, on average, until age 86.6. That's a lot of retirement.

How are these ages calculated? For large groups, it is simply the law of averages per country. For individuals, health factors such as smoking and genetics, as well as parental ages, play larger roles.

As our knowledge of the human body expands, we will be able to control these aging processes more effectively. Injecting blood from young mice into older mice has proven to revitalize the brain of the older mouse. This is merely one direction scientists are looking to help elongate both lifespans and health spans.

An article in The Telegraph in 2015 suggested children born in the next generation could routinely live beyond the age of 100. Since the 1980s, life expectancies in Britain have increased by about a decade. None of this includes dramatic scientific discoveries that could happen over the next 50 years.

One problem is that life expectancies are increasing faster than healthy life expectancies. In other words, we may not truly be living longer, but existing longer. Is this a good thing?

As well, governments have been slow to change their behaviour when it comes to public pensions.

Canada has two government pension systems – the Old Age Pension, which just about everyone qualifies for, and the Canada Pension Plan, which you have to pay into to receive.

The Old Age Pension, or OAP, is a cheque sent to citizens from age 65 until death, subject to clawbacks on higher-income earners. The government was going to change OAP to begin at age 67 instead of 65 because of the many more years we are living. This was moved back to 65 after the last election, but the math doesn't lie. A new paper recently calculated even age 67 is not enough. Canada cannot afford its current Old Age Pension system and should extend the starting age to 70.

The Canada Pension Plan, or CPP, is more flexible. You can start it anytime between the ages of 60 and 70. Individuals are incented to delay taking government pensions through an indexing formula, such that you receive less if you start before 65 and more if you start after. Each year below 65 costs you 6%, while each year after adds 7% more per year until age 70.

If you are still working and in good health, you should probably defer taking your pension until after 65. Very few people do this, even though the difference over an average lifespan is huge. The common belief is that since you don't know when you will die, every payment from age 60 on is a win.

Deciding when to take your Canadian Pension is a difficult decision. There are many factors to take into account when figuring out the right age to start. We will be putting a custom-built calculator up on our website in the coming months to help people calculate their own ideal age to start the Canada Pension Plan. It has been a year in the making and involves massive calculations.

If you are interested in knowing your own best time to start receiving Canada Pension Plan payments before then, just send us an e-mail.

Amazoned

Believe it or not, this is a new verb.

To be “Amazoned” is to have the web retail giant enter and destabilize your industry, just as it did to books, electronics, and toys.

Last week, the food industry was “Amazoned” when Whole Foods (**NYSE WFM**) received an offer from the web giant for its 465 stores. This is the first time Amazon (**NASDAQ AMZN**) has entered the bricks and mortar realm and, while the purchase was for just US \$14 billion, close to \$77 billion in market capitalization was wiped off the shares of other retailers, such as Wal-Mart (**NYSE WMT**), Costco (**NASDAQ COST**), and Target (**NYSE TGT**). Even Canadian food retailers Loblaw (**TSX L**) and Empire (**TSX EMP.A**) trembled, as did the European grocers.

To be clear, Amazon is not going to start delivering lettuce to your door. At least, not yet. Their new real estate will function as both grocery stores, as well as pick-up-and-drop-off locations for Amazon’s other products. They could even launch drone deliveries from their roofs someday. And because Amazon cares little about profits, they may start luring new customers through weekly offers such as free eggs or one-cent bread. Their *Amazon Go* concept store in Seattle has no checkout people because it operates entirely by cameras that track you and your purchases. Amazon uses more robots than almost any company on Earth.

Every industry that Amazon has entered has seen prices collapse, leaving just a few competitors left. Now you can see why the retail world shook in its collective boots that day.

There are ramifications beyond just food. Pharmacies will come under pressure when Amazon starts dispensing prescriptions at a fraction of the price drug stores charge today. Restaurants have been responsible for almost 15% of all new jobs created since 2010. If Amazon starts cut-rate deliveries of high-quality prepared dinners from Whole Foods, it could impact the entire restaurant industry.

Our portfolios had minimal exposure to grocers and restaurants, so we were happy to dodge this bullet. We do have several investment conclusions:

1. This will be painful for the food industry. In the end, Wal-Mart, Target, and Costco must adopt on-line divisions that look like Amazon to compete. Many chains will vanish, starting with Sears (**NYSE SHLD**).
2. Few retailers are bargains yet, except perhaps for companies like Costco. Retail stocks are cheap, but could get cheaper.
3. At some point, Amazon will stumble. Nothing has been able to stop the company yet as they devour every industry they target. Does Wal-Mart fight back? Does the US Justice Department move to break them up, as they did with Standard Oil and AT&T (**NYSE T**) years ago? It is entirely possible Amazon’s monopoly power has finally gone too far.

Short-Term, Medium-Term, and Long-Term

Most portfolios marked time in June. Bonds went up in price, while most stocks went down a little. No one is getting rich this month. But then, June is historically a flat month.

Short-Term

- Economic data continues to be favourable.
- Leading economic indicators – employment, manufacturing, house prices – continue to improve, albeit at a slower pace than before.
- US politics have stabilized, to a degree.

Medium-Term

Now the picture gets a little more cloudy.

- Oil prices cannot seem to rise. Crude oil is experiencing their worst first-half decline in almost two decades as production cuts have failed to sufficiently reduce oversupply. Technology has allowed US production to soar while Libyan, Nigerian, and Iranian oil is coming back on-line. This is good for fuel users like car drivers, airlines, and truckers, but bad for oil producers, and producing countries such as Canada.
- The US Federal Reserve raised interest rates in June for the 4th time since the rate hike cycle began. Why? To slow the economy and inflation pressures. Is it working?
- Maybe too well. Interest rates fall when the economy falters. That is exactly what is happening now:



Long-Term

- 2017 marks the first year since 2007 when every major central bank in the world is raising rates, slowing stimulus, or reversing course from their money-printing ways.
- If “easy money” lifted stock and bond prices over the last 8 years, what will “tight money” do?
- We always knew technological change was coming faster and faster. And we hoped it would only deliver good things to make our lives easier. Now, driverless cars threaten the taxi and trucking industries. RBC just laid off 450 people to focus more on artificial intelligence - machines replacing people. Amazon made the news for its purchase of Whole Foods, but no one is pointing fingers at Amazon for helping send Sears Canada into bankruptcy.
- Governments raise interest rates not to stop inflation, but to control it. Inflation helps big borrowers – governments - pay today's bills with smaller dollars tomorrow. The goal for most governments today is 2% inflation – not too much, but still enough to erode that giant pile of debt we have built up. Canada's inflation just came in this month at 1.3% versus the 1.5% expected. Price-crushing companies like Amazon have stopped inflation in its tracks all on their own. With inflation going nowhere, interest rates are likely to stay low for years.

We want to say thanks to our clients for introducing their friends and family members to us throughout the year. It's a tremendous compliment and a huge responsibility, and something we never take lightly.

Did It For Dad

Raymond James is the sponsor of the B.C. Prostate Centre's Father's Day Walk and Run for Prostate Cancer. It is a great cause, and we thank everyone who was generous enough to donate money or time to the event. Everything earned goes straight to the Prostate Center. The centre has delivered over 7,000 free PSA tests to men since it opened, discovering dozens who needed follow-up but were unaware of their condition.

While the weather more closely resembled a day in November – windy and rainy – it did little to dampen the spirits of the many volunteers and runners involved. Both the walk and the run were big successes, despite the rain.

Our team was heavily involved in the planning of the run. Paul ran the 10k and Sharon ran the 5k, while Ashley and her husband, Ryan, sold 50/50 tickets. Lisa completed four days of a grueling bike trip across half the width of BC. Ray and Lincoln manned a "What's your Number" booth in the Men's Tent, which helped passersby calculate when to take their Canada Pension Plan.

Joanne and Sue did the bulk of the work. Joanne joined the board to organize the Run and was stationed in the Men's Tent, and Sue Siluch coordinated close to 100 volunteers.

Despite the weather, we hope to raise over \$50,000 this year – a new record. Thank you to all who donated or participated!

The University of British Columbia built an excellent website to discuss prostate cancer for us. Have a look:

<http://ifiweretom.ubc.ca/>

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 email 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 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.

Amazon.com - Raymond James & Associates makes a market in shares of AMZN.

Costco - Raymond James & Associates makes a market in shares of COST. Raymond James & Associates received non-investment banking securities-related compensation from COST within the past 12 months.

Wal-Mart - Raymond James & Associates makes a market in shares of WMT.

AT&T - Raymond James & Associates makes a market in shares of T.

Loblaw Companies - Raymond James Ltd - the analyst and/or associate has viewed the material operations of L.

Empire Company - Raymond James Ltd - the analyst and/or associate has viewed the material operations of EMP.A.

Prices shown are as of close June 23rd, 2017.

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