

The Market in Review

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

November 10th, 2017

This week's articles and insights

1. *Big Money Speaks*
2. *Supply and Demand*

“Hang out with people smarter than you. You will see the difference.”

- Anonymous

Your Index Report

	Current	Last Week	Year-to-Date
Dow Jones Ind. Avg.	23,422	-0.50%	+18.52%
S&P 500	2,582	-0.21%	+15.34% (+8.74% in \$CDN)
TSX	16,039	+0.12%	+ 4.92%

Big Money Speaks

I travelled to Los Angeles this past weekend to visit the Capital Group. This is a money management firm that manages approximately US \$1.6 trillion. They have over 8,000 employees and are the largest global money manager in the world. Some call Capital the largest money manager in the world that no one has ever heard of.

While I took about six pages of notes, it was their broad discussion of technological and economic change I wanted to highlight in this week's letter. Capital has 384 portfolio managers and research analysts in every corner of the world, so their perspective is unmatched.

Disruption

While many people are worried about the relentless climb of stock markets this year, the Capital Group does not see any major stresses in the US economy. As a result, few recessionary signs are apparent. The global recovery is being enjoyed by almost every country in the world for the first time since the last 1990s, which bodes well for demand.

Do they have worries? They would not have beaten the global index for decades if they didn't.

Governments around the world have collectively printed money and bought \$15 trillion of bonds since 2008, which has helped deliver the 2% growth we see today. These purchases peak next March as the European Union and the US shrink these programs. What happens then? Do markets reverse?

The exponential rise of some growth stocks have led Capital Group managers to take profits and switch leaders. While technology stocks are still 25% of their giant global equity funds, the top position is now a tobacco stock.

Wait, tobacco? The biggest revolution in smoking is the advent of the new heat-but-don't-burn tobacco products. These release the nicotine but not the tar and other cancerous substances, as well as providing a smoke-free environment for non-smokers. They may be the biggest technological change to hit tobacco since the lighter.

The 2nd Machine Age

The next decade is set to be profoundly interesting. Capital Group calls it the 2nd Machine Age, and it will usher in a period of global economic disruption. This does not necessarily have to be bad or good, but it will mean a period of great change for many companies which are leaders today, but may not be tomorrow.

There have been at least five periods of economic disruption in the past 250 years:

- 1770's Industrial Revolution
- 1820's Steam and Rail
- 1870's Electricity
- 1900's Automobiles and Oil
- 1970s Information Age and Telecom

All of these eras saw companies rise and fall, with even countries vanishing.

The decade from 2020 to 2030, or the 2nd Machine Age, as they call it, will see great advances in such areas as artificial intelligence and machine learning, and 3D printing. One of their key managers listed a few examples:

- The age of the Autonomous Cars is almost upon us and we may see parts of cities digitally "ring-fenced" by 2018 where driverless vehicles will be allowed to operate for the first time. A mass conversion of internal combustion engines to electric vehicles will take longer than many think, however, because costs are still too high for many electrical components. Eventually, electrical vehicles combined with autonomous driving will have a tremendously negative impact on auto manufacturing, municipal parking, and automobile insurance. The research specialist in this area sees the Audi as the most advanced self-driving car today and believes Tesla (**NASDAQ TSLA**) is a "fake business model" because every car made is heavily subsidized.
- Solar power has seen little new innovation or new investment in the last decade. By 2040 we could have solar collectors in the sky sending power down 24 hours a day, 7 days a week. This will make such things as water desalination in hot, remote areas much cheaper.
- 3D printing – 20% of everything manufactured will be 3D printed by 2030, including human organs.
- Bioengineering of food.
- Science leading to an elongation of life expectancies.

What are the ramifications?

There are likely to be fewer jobs, or at least fewer jobs in the industries we know today. In the past, new industries have spawned new employment. For example, think of how many people are employed in the cell phone industry compared to twenty years ago. Jobs may become obsolete much more quickly, however. It will be more important than ever before to save for retirement, especially if the next generation is going to live longer. My job will be to educate millennials about this.

Instead of many companies in each industry, we could see just 2-3 giant companies dominating each market. It will be vital to be on the right side of this as an investor.

The changes technology is bringing to the banking and financial services industry are just as profound. The new entrants are known as “FinTech” companies.

FinTech

Today, more and more people want better mobile services and access. Artificial intelligence is already helping people invest, and block-chain technologies and digital currencies could topple our need for banks almost completely.

Some companies will adopt the new changes and thrive. Many could miss the mark as new entrants arrive.

An example of new entrants are the social media companies. Not that long ago, our banks controlled us financially. They knew everything about our finances and dictated our spending and borrowing with this knowledge. Today, companies such as Facebook (**NASDAQ FB**) and Alphabet (**NASDAQ GOOGL**) know just as much about our finances as any bank. They also know our spending habits, our friends’ spending habits, and our locations at any moment.

Which company could become the largest financial firm in the world? The answer may surprise you.

Alibaba (**NASDAQ BABA**) in China had a very successful payment system called Alipay. It was so successful, they spun it off into a new company called Ant Financial. Ant is now the largest FinTech firm in the world with over 500 million

customers in China alone. It operates the largest savings account in the world after just a year of being open.

Ant Financial is growing quickly because Asia is growing so much faster than everywhere else. Unlike in North America, most children in China did not grow up with televisions, Playstations, or Gameboys. For them, everything – gaming, commerce, communications, business – revolves around their phones. Companies such as Alibaba and Tencent (**NASDAQ TCEHY**) – the operator of the WeChat messaging network - have capitalized on this.

Remember those “ghost cities” that China built and were completely empty a few years ago? These were held out as evidence of China’s upcoming collapse. Instead, China spent even more on high-speed railways. Those ghost cities are full today because people can live there for half the price of Shanghai and Beijing, and are just a few hours away by high-speed train.

There were many other interesting thoughts I gained from the many global managers we heard from. For example:

Energy – They see oil reverting back to \$60-75 next year, a rise that could happen even faster with the arrests that happened in Saudi Arabia over the weekend. Interestingly, they see the US shale beds as beginning to show signs of depletion (especially in the Bakken fields of North Dakota), which means there must be more oil investment around the world. It also puts the Canadian oil sands in a better light, since they have close to 200 years of known reserves. One manager’s favourite is Canadian Natural Resources (**TSX CNQ**), one of the largest oil sands companies, up here in Canada.

Artificial Intelligence in Canada - Canadian centres in Toronto and Montreal are now globally-renowned hubs for artificial intelligence research. All the big tech giants are setting up shop because of the recent successes and breakthroughs coming out of places such as Montreal and Edmonton.

Consumer Staples – “Millennials can’t cook”, stated one analyst rather bluntly. Many buy prepared meals at their grocery stores, which has led these stores to “shrink the middle (packaged foods) and expand the periphery (the deli)”. The packaged food industry has, as a result, seen a sharp contraction in sales due to this “Death of Brands” worry. The lead analyst for this group sees companies such as Kellogg’s (**NYSE K**) and General Mills (**NYSE GIS**) as approaching attractive levels because of the negativity and selling of their shares. Millennials

want fresh, new brands, and the packaged foods companies understand this. They are adding more fresh flavours than ever before to deliver the fresh and organic experience today's consumers desire. So much, in fact, that the world is experiencing shortages of such additives as vanilla and rose oil. Packaged foods also do better when the economy slows, so their time will come again.

Finally, Capital Group is one of the largest investors in emerging markets worldwide. They see most investors as vastly underexposed to this part of the world, where much of the growth and more of the young people reside. Values are still much better than in most developed markets.

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.

Supply and Demand

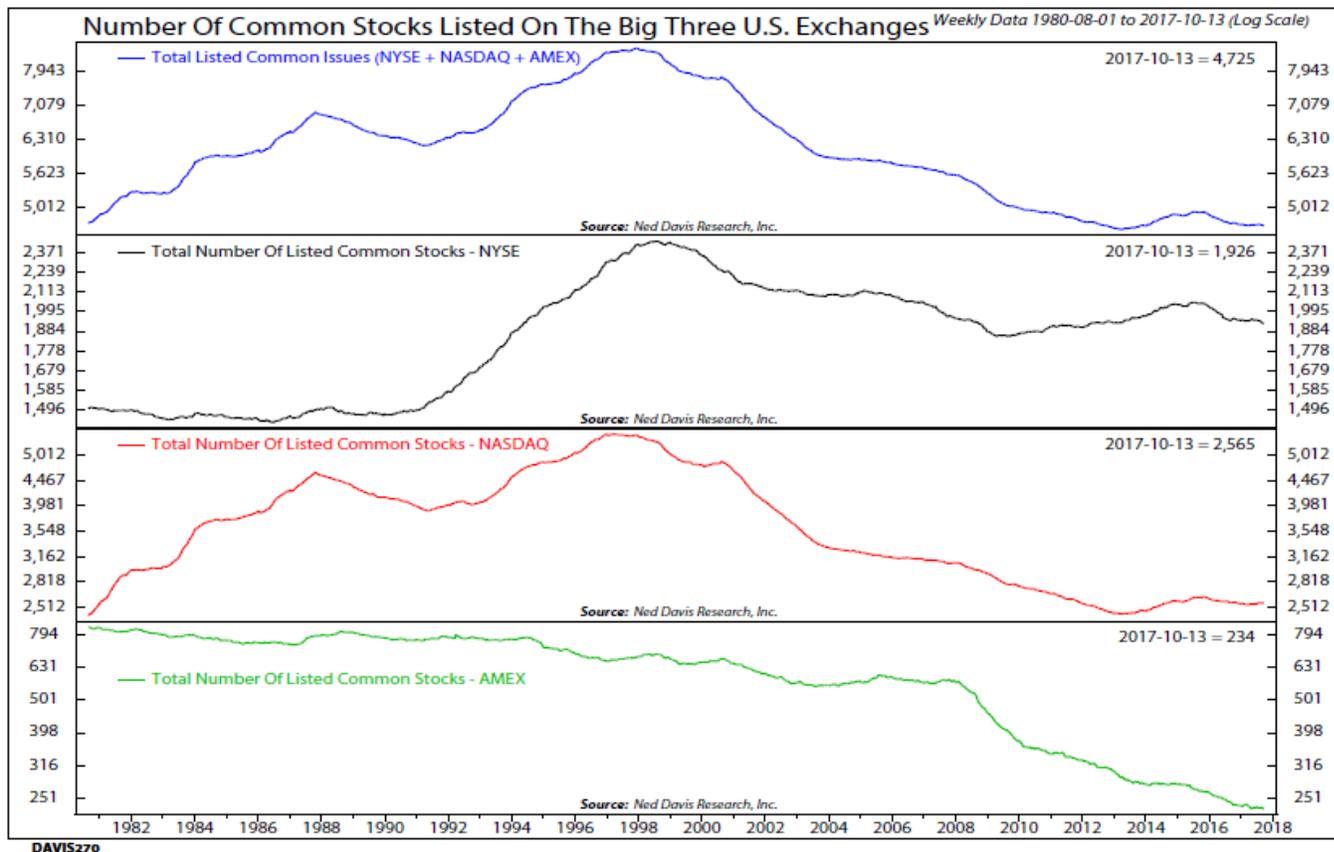
We all know stocks are at all-time highs and there are many reasons floated about to explain this.

One that is not commonly discussed is the supply and demand picture.

The Ned Davis Group published an interesting graph this month that shows the dramatic shrinkage in the number of publicly-listed companies in the US. The peak was around 1998, at the height of the dot-com era, when close to 8,000 companies were listed on the various exchanges.

Today, there are just 4,725. Not even enough to fill the Wilshire 5,000 Index, which holds just 3,618 stocks as of the end of 2016.

More demand and less supply may be another important reason for this bull market.



Copyright 2017 Ned Davis Research, Inc. Further distribution prohibited without prior permission. All Rights Reserved. See NDR Disclaimer at www.ndr.com/copyright.html. For data vendor disclaimers refer to www.ndr.com/vendorinfo/.

<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.

Canadian Natural Resources Ltd Raymond James Ltd - The analyst and/or associate has viewed the material operations of CNQ.

Facebook, Inc. - Raymond James & Associates makes a market in shares of FB.

Alphabet, Inc. - Raymond James & Associates makes a market in shares of GOOG.

Alibaba Group Holding Ltd. - Raymond James & Associates makes a market in shares of BABA.

Prices shown are as of close November 10th, 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.
