The Market in Review

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This week's articles and insights

1. *The Roller Coaster Market*
2. *A Tax by any Other Name*
3. *Money is like Manure*
4. *Early Retirement can be a Killer*

"One of the key problems today is that politics is such a disgrace, good people don't go into government."

- *Donald Trump (now in government…)*

Your Index Report

	Current	Last Week	Year-to-Date
Dow Jones Ind. Avg.	23,932	-0.71%	- 3.18%
S&P 500	2,604	-1.38%	- 2.59% (- 1.10% in $CDN)
TSX	15,207	-1.04%	- 6.18%

The Roller Coaster Market

The roller coaster ride continued this week. The Dow Jones Industrial Average fell over 400 points in four of the last 10 days, and rose 300 points or more in three. Watching the market has as many head turns as a tennis match.

Some of this is company-specific, with Facebook (**NASDAQ FB)** being grilled for allowing its users' data to be used for the 2016 US election, and Amazon (**NASDAQ AMZN**) coming under fire for paying the US Postal Service too little for shipping its parcels. Most of the ruckus has come from the ongoing trade spat between the US and China. President Trump proposed US $50 billion in tariffs on Chinese imports, which was matched by an equal amount by the Chinese on US imports.

Stocks will have a rocky Friday as President Trump is now asking for an additional $100 billion in additional tariffs. Not a penny has been levied yet, so it is just bluster for now.

Meanwhile, the US economy just keeps chugging along nicely. The US added 241,000 jobs last month and housing starts rose more than expected.

Oil prices rose, which was good news for Canada and Canadian energy shares. Oil and gas stocks have been quietly rising during this stock correction, even as technology stocks got hammered.

Most importantly, more trains are running, so the discount on Canadian crude oil is narrowing. Alberta will be happy.

A Tax by any Other Name

Let's talk again about tariffs this week. Markets are transfixed by them, so let's dig a little deeper and see if all the fuss is worth it.

There is only one beneficiary from a tariff: the federal government.

Why? Because a tariff is simply another tax. It is a tax on imports which goes straight into government coffers. Sure, it is billed as "saving local jobs" and "keeping cheap foreign goods out" but who pays it? The domestic taxpayers do.

Early on in Canada's confederacy and at the beginning of US independence, tariffs were the main source of government revenue. The Boston Tea Party uprising of 1773 began back in Britain where a 25% tariff on tea had been imposed on all tea imported into England. This was extended to the American colonies, and the fun started when the colonists didn't want to pay it.

In fact, when you read about threats of tariffs and the upstart across the oceans stealing our jobs and wealth, substitute "USA and Britain" in 1900 for "China and USA" today and you have an exact parallel.

The new American government recognized a good thing when they saw it. In 1789, the U.S. Congress tasked its agents to begin collecting its own Import Tax. The average tariff on anything imported was about 20%. This became the source for up to 95% of all federal revenues in the early years, falling to around 30% before World War 1, and just 1.2% today. Tariffs became a smaller and smaller part of government's total revenues after the Federal income tax began in 1913.

Who pays? As we said above, the local consumer does. Canada's softwood exports to the US have been subject to 20% tariffs since November. This is to protect the US logging industry, even though the US will never grow enough wood to keep up with its needs. An average new home now costs over US $1,200 more due to the higher cost of wood. Has it stopped Canadian imports? Hardly. The US housing industry is building at the fastest pace in a decade. The houses are more expensive, but the US wood industry is making record profits. And so is the federal government.

Back to the total tariffs raised: 1.2% of total government revenues. Even if you doubled this, it would hardly make a dent in things. The last time tariffs were imposed on US steel imports was March of 2002. Domestic steel production rose slightly, but the economic impact was marginally negative because jobs ended up being lost. It proved to be a huge political headache as Europe threatened counter-tariffs, and they were finally removed in late 2003. So much trade is done globally with zero tariffs that it ended up being a tempest in a teapot.

So, tariffs alone won't wreck the world economy. However, the increased political friction can lead to unintended consequences. The Chinese government has enormous sway over its people, and if it suddenly says "Stop buying anything American!" we could see a dramatic slowdown that has nothing to do with tariffs.

As we said in our last letter, this is how President Trump operates. Come out with guns blazing, gain a few concessions, and then back down.

At some point, the market will begin to see through the fury and carry on higher, or President Trump will have his bluff called by China.

Meanwhile, the gyrations will lead to good buying opportunities. Once it calms down.

Money is like Manure…

…goes the old saying. “It’s not worth anything unless it is spread around.”

Despite China’s threats of taxes on US agricultural imports, from soybeans to pork, that country’s need for food will not slow down. We added fertilizer maker Nutrien (**TSX NTR** yield 3.4%) this week to our Dividend Value portfolio. Nutrien is the company formed when Potash and Agrium merged, and is now a giant on the global fertilizer stage. It is also owned in both Barometer and Jarislowsky Fraser portfolios that we use for many clients.

At US $46 today, Raymond James Ltd. analysts have a US $58 target price.

Thank you for your referrals this month! They are always handled with great care and discretion.

Early Retirement can be a Killer

There was an article years ago about the danger of retiring at 65. Boeing (**NYSE BA**) did an internal study and reportedly found that the average mortality of 10,000 of its (mostly male) workers who retired at 65 was 18 months.

For those who retired at 55, however, the average mortality was 20 years. Boeing was so shocked, they repeated the analysis when they acquired McDonnell Douglas, which also had approximately 10,000 retirees.

The result? Exactly the same. Retire early - live a long time. Retire late – die early. They made a guess as to what caused this: many who retired late did so for health reasons (they needed the health plan) and so were already sick. But, this was just speculation. And there was not enough data to assess if the results were gender related because most in the survey were men.

I was reminded of this old study when I saw an article by Mark Hulbert entitled “Why early retirement can be a killer.” It cited a study distributed by the National

Bureau of Economic Research which focused on Social Security statistics. In particular, those who took it early – around the age of 62.

The results showed that there is a “marked increase in mortality among men who retire at 62 and begin receiving Social Security”, the study said. For some reason, there is a 20% increase in the death rate for those who claim Social Security early. And the data mostly points the finger at men. For women, the data was inconclusive.

On the surface, this seems to fly in the face of the Boeing study. Retiring early helped at Boeing, but hurt with Social Security. Perhaps they have more in common, however, than first appears. The common thread seems to be what men do when they retire.

“Why would taking early retirement lead to increased mortality?” the authors of the Social Security study asked.

“The evidence points to unhealthy changes in life style that often accompany retirement. For example, the professors point to other research that found male “retirees become sedentary, often watching more television.””

Other theories put forward at Boeing were that men who retire at 55 often went on to other careers, had enough saved for an active lifestyle, or were still young enough to build new social relationships. Those who retired at 65 were less likely to enjoy these benefits. We know that men often build their social networks where they work, only to lose them when they retire. Women, in general, have wider social and family circles. Men, with nothing to do, appear to slide more into inactivity and less social lifestyles.

The Social Security study showed no increase in sedentariness among women retirees, though, which may explain why there was no increase in their mortality rate.

“Unlike women, furthermore, male retirees in particular also appear to have fewer social interactions after they stop working, which other studies have found to have a negative impact on health. Still other studies have found there to be an increase in tobacco and alcohol use after stopping working.”

Retirement for women has been described as “less money and more husband.” Who knew that was a deadly ratio for men, rather than women?

Hulbert’s article goes on to say

“The key is not retirement itself, in other words, but what you do in retirement. When thinking about whether to retire, Fitzpatrick emphasized, “We need to focus on more than financial health alone.”

I often tell people that you should retire to something, rather than from something. Spend time during your working years to start a hobby, join some clubs, and be engaged in activities that will extend into retirement. And for goodness sakes, continue to exercise whenever you retire, whether it is 55, 65 or even 75. Bad things happen when you stop moving.

The article can be read at https://www.marketwatch.com/story/why-early-retirement-can-be-a-killer-2018-03-19.

Pay attention, all you retiring men!

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

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Facebook, Inc. - Raymond James & Associates makes a market in shares of FB.
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Nutrien Ltd. - Raymond James Ltd - the analyst and/or associate has viewed the material operations of NTR.

Prices shown are as of close April 6th, 2018.

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