

The Market in Review

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

July 12th, 2018

This week's articles and insights

1. *Earnings – Supertanker Momentum*
2. *Markets This Week*
3. *Responding to Change*
4. *Thanks for the Memories*

“God gave us memory so that we might have roses in December.”

— *J.M. Barrie*

Your Index Report

	Current	Last Week	Year-to-Date
Dow Jones Ind. Avg.	24,925	+ 1.92%	+ 0.83%
S&P 500	2,798	+ 1.39%	+ 4.66% (+ 9.50% in \$CDN)
TSX	16,567	+ 1.19%	+ 2.21%

Earnings – Supertanker Momentum

There has been great concern that the good times are about to end because of the recent US tariffs. Well, they may, but history suggests otherwise.

In short, US earnings have been great. Last year's tax cuts invigorated spending, investment, and hiring such that corporate earnings have never been higher. And since rising earnings are the underlying foundation for rising stocks, we are seeing a rising stock market as well.

Like a supertanker that takes many miles to stop, the stock market also has its own momentum. The chart below shows rising earnings typically last at least 5 years:

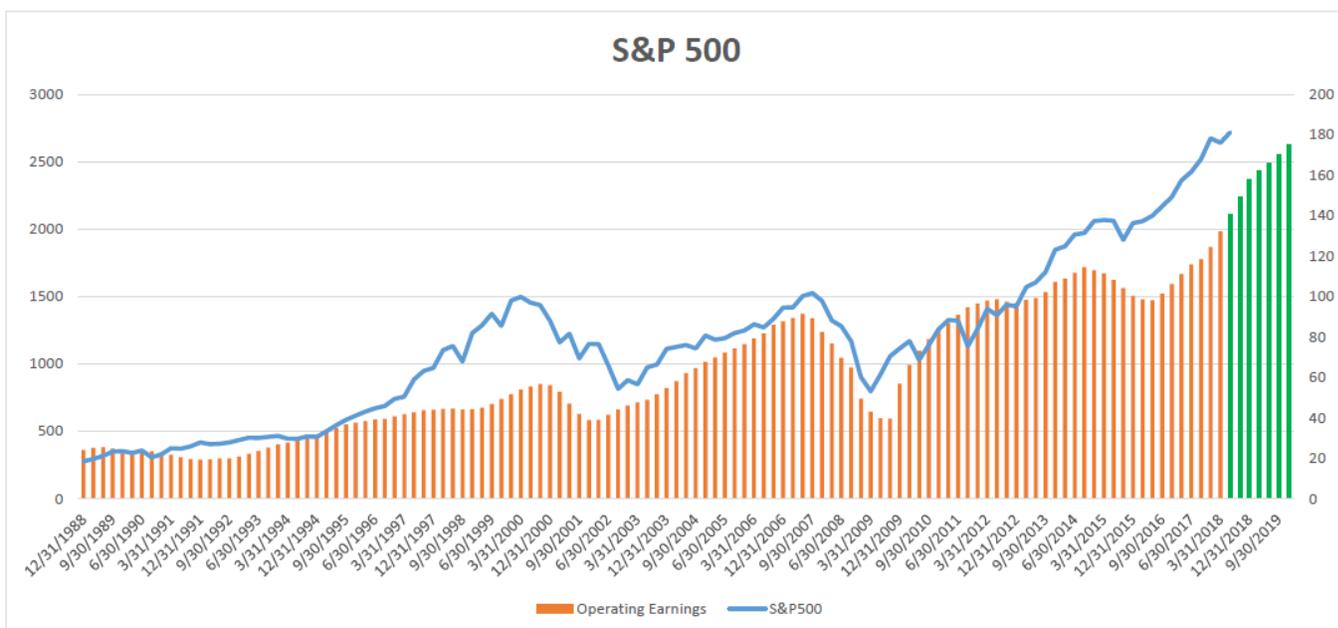
Trough to Peak:

1992-2000: 8 years

2002-2007: 5 years

2009-2014: 5 years

2016-today: 2 years and counting



Source: Raymond James research; S&P; estimates are consensus bottom-up operating earnings

Markets This Week

It has been a busy week.

First, earnings season has begun, where companies report how they did from April through June. This always has the potential to send stocks flying or crashing. So far, we have seen just one company report – Alimentation Couche-Tard (see below) and it was a winner.

Second, employment and economic numbers have been strong, especially employment in the US. This has helped markets in July get off to a very strong start.

Third, because of the strong numbers, Canada's central bank raised its key interest rate to 1.5% from 1.25%. This is good if you are a saver, but not if you are a borrower.

Finally, the threat of US tariffs became a reality as its first \$50 billion of tariffs came into effect, followed by the announcement of another \$200 billion in two months. Of course, Canada, the European Union, and China all announced counter-tariffs, which seriously clouds the global trade picture.

Suffice it to say, any action which impedes global trade is a bad thing. European automobile makers, which enjoy a 10% tariff on US cars entering Europe compared to 2.5% on European cars entering America, have recently proposed dropping tariffs both ways to zero. This is exactly what the current administration in the US seeks.

Two final points on tariffs to ponder:

1. The US economy is \$20 trillion in size. \$400 billion in tariffs (about double the current amount) is only 2% of the US economy. Even if they are enacted as proposed, the impact is less than most people fear.
2. The media has focused on the tariffs failing, but what if they succeed? What if China does something like the European auto makers and agrees to lower restrictions on US imports? The market would view this very, very favourably.

Just food for thought.

Responding to Change

These days, no company is immune to a changing market. GE (**NYSE GE**) was the longest-serving member of the Dow Jones Industrial Average at 114 years. The company began as a power and light bulb company founded by Thomas Edison. As those markets matured, it expanded into locomotives, jet engines, medical imaging systems, finance, and oil and gas. Some poorly-timed investments (buying oil and gas and power at the top of these markets) and sales (selling finance at the bottom) have forced the company to cut its hallowed dividend. It was booted from the Dow just a month ago and replaced by Walgreen's (**NYSE WBA**), the drug store chain.

Even companies like Alphabet (**NASDAQ GOOG**), formerly known as Google, are not immune. The latest battleground in technology is the home assistant – a "smart" speaker you talk to for access to the internet and to do things like listen to music and order things. It is a huge new frontier in technology.

Amazon (**NASDAQ AMZN**) is way ahead of the pack with its Alexa smart speaker, even though Alphabet was the first to introduce its device. The analysts at Morgan Stanley say Alphabet needs to give every U.S. home a free speaker to keep from losing the market to Amazon – that's how dominant Amazon already is, even though it has yet to deliver much profit or pay a dividend.

Even fighting the creator of Google is not enough for the "Death Star" Amazon. Amazon is now taking on the drug companies, the pharmacy chains, and the health benefit providers through the purchase of PillPack, a company that ships your exact prescription overnight at a lower cost than your pharmacy.

A company we own facing change is Alimentation Couche-Tard (**TSX ATD.B**), a Canadian company held in many of our portfolios. Not many Canadian companies are successful globally, but this is one of them. Couche-Tard is Canada's largest company by revenue with almost \$60 billion in sales – larger than all of the banks. It operates gas bars and convenience stores under the Couche-Tard ("Night Owl"), Mac's, and Circle-K brands in North America, with twice as many stores as Tim Horton's. Worldwide, the company includes the Ingo brand and has over 15,000 outlets.

For the record, Couche-Tard makes about CAD \$0.09 per litre of fuel – about 6% of what we pay per litre. Government taxes are 3-4 times that amount per litre. They don't make a lot selling a gallon of gasoline, but they sell a lot of gas.

We believe it is undervalued because of its consistent growth, repeat business (everyone who drives needs fuel), and eventual U.S.-listing under the newly-unified Circle-K brand name. The company knows this business better than almost anyone else, with even giant Imperial Oil (**TSX IMO**) selling 279 of its Esso retail gas stations to Couche-Tard for \$1.69 billion in 2016. They are pushing their own in-house coffee brand hard, as well as other services such as seasonally-adjusted car washes.

It also faces an enormous change in the years ahead with electric vehicles. Who will stop for gas and a coffee when cars no longer need petroleum products for fuel?

In the near and intermediate term, there is still lots of "runway" for Couche-Tard. It is still buying up smaller competitors, expanding into Asia, and delivering more and more fast food options outside of coffee and hot dogs. And billions of people in India and China still don't own a car or a motorcycle, but will in the next decade.

In the long-term, however, their world could be turned upside down. Most electric vehicles are charged at home overnight, and when driverless ride-sharing arrives and fewer people own cars, the once-a-week stop at the gas station becomes a thing of the past. What will the company do then? It is a question the company is exploring at the highest levels.

But like GE a century ago, when it switched from light bulbs to jet engines and locomotives, companies can evolve. Couche-Tard is already becoming a food company, as well as a fuel provider. They have a huge experimental facility in Norway because 50% of all new cars sold there are now electric vehicles. Couche-Tard now has over 100 charging stations in Norway and is experimenting with top-up charging at their stations. They also sell fresh food as well as fast food. And since charging takes longer, they even are looking at beauty bars while you wait. In the future, they may deliver food right to your door because your own car is busy charging.



Multiple electric charging station.

Will they be able to make such a radical change? Some companies do, but the truth is, many – like Xerox and Kodak - don't. Couche-Tard is way ahead of most of its competitors in the way it is using an entire country to experiment in, so it may survive the coming electrification of transportation.

At \$60 today, 11 of 12 analysts rank it as a Buy. Earnings this week were above expectations and the dividend was increased by 11%.

A good week for Canada's "Night Owl".

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

Thanks for the Memories

Dementia is a growing problem as worldwide populations age, with global costs estimated to be as high as \$600 billion annually when unpaid care is included (US National Library of Medicine - National Institutes of Health). Alzheimer's disease is the most common form of dementia and it has shown itself to be one of the most difficult diseases to treat in humans. A gummy substance called

amyloid plaque degrades memory and brain activity until the mind is completely lost.

How difficult is it to treat? One study showed that approximately 20% of new cancer drugs show some form of effectiveness. New Alzheimer's treatments have failed 99.6% of the time, in comparison. As Lincoln, our research analyst says, any new drug that works would be the "Holy Grail" of medicine.

An important milestone in the field of memory and aging occurred this week when a drug in trials to slow Alzheimer's actually worked. 856 patients in mild and early stages of Alzheimer's disease showed little change at 12 months, and the drug was thought to be yet another failure. To the scientist's surprise, the same group at 18 months showed a statistically significant slowing of plaque formation and memory loss.

The company that controls the drug is Biogen (**NASDAQ BIIB**), but we are simply watching it at this point. Many new pharmaceuticals have side effects or fail in later trials, which means this is still in the earliest of innings. Just look at how long we have been working to beat cancer.

This weekend, I was reminded of the importance of memory. I travelled to Calgary to visit four of my closest friends from high school, as we are all turning 60 this year. I have known some of them for 50 years, which means we have many stories, both heroic and downright embarrassing, about one another. Studies show that old friends give us perspective about ourselves, continuity from our past to our present, and a degree of acceptance that often exceeds that of even family. I don't think I have laughed harder in months.

It is impossible to make a new old friend. It takes work to hold on to the ones you have, but it is well worth the effort. I am grateful for the memories I have with these fellows, and hope new drugs arrive in time to ensure I keep them as long as possible!

<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.mazzone@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.

*Amazon Inc. - Raymond James & Associates makes a market in shares of AMZN.
Alphabet Inc. - Raymond James & Associates makes a market in shares of GOOG.
Biogen Inc.- Raymond James & Associates makes a market in shares of BIIB.
Walgreens Boots Alliance, Inc. - Raymond James & Associates makes a market in shares of WBA.
Imperial Oil Ltd. - Raymond James Ltd. or its affiliates expects to receive or intends to seek compensation for investment banking services from all companies under research coverage within the next three months.*

Prices shown are as of close July 12th, 2018.

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.

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.

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.