

The Market in Review

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

July 5th, 2019

This week's articles and insights

1. *Who Would You Kill? The Ethics of Self-Driving Cars*
2. *Stocks Up, Economy Down*
3. *Stretching Out the Dollars*
4. *People and Pets*

“Sometimes you have to choose between a bunch of wrong choices and no right ones. You just have to choose which wrong choice feels the least wrong.”

— Colleen Hoover, *Hopeless*

Your Index Report

	Current	Last Week	Year-to-Date
Dow Jones Ind. Avg.	26,966	+ 1.66%	+ 15.60%
S&P 500	2,996	+ 2.42%	+ 19.51% (+14.26% in \$CDN)
TSX	16,589	+ 0.86%	+ 15.82%

Who Would You Kill? The Ethics of Self-Driving Cars

Times were simpler when Moses came down from the mountain with the Ten Commandments.

Don't steal

Don't commit adultery.

No other gods but me.

And so on. Ten simple rules for a simple era.

Then there is *Thou shalt not kill.*

Straightforward in 1,000 B.C., but more problematic in the modern age. How does this apply, for example, to a preventable car accident? Three thousand years ago, two camels colliding in the desert caused a few new bumps on the humps. But today? We are developing cars and trucks that drive themselves at 100 mph. They will need their own Ten Commandments to ensure the safety of the humans they transport, and those nearby. The question of the day is, what ethical rules should cars follow when the decision is not black and white?

A recent study in Nature Magazine, done in conjunction with MIT, attempted to answer this. It surveyed 40 million people in 233 countries to assess just how people wanted cars to react in the event of an imminent collision. The problem was that people's answers changed, depending on whether they were inside the car or outside of it.

"In surveys, people said that they wanted an autonomous vehicle to protect pedestrians even if it meant sacrificing its passengers — but also that they wouldn't buy self-driving vehicles programmed to act this way."

- Nature 24 October 2018

In other words, save me first if I am outside the car, but also save me first if I am a passenger. What is a poor car to think with rules like these?

Answers were also dependent on where you lived. In prosperous countries with stricter rules of law, people were less likely to spare pedestrians who jaywalked. In countries where this is the norm, they were more lenient toward illegal street crossers.

In northern Christian countries, older people were sacrificed for younger ones in most cases. France, Greece, and Canada top the list of those who would spare the young over the old.

However, in countries that are dominated by Confucianism and Islam, older people have a higher standing and were less easily sacrificed. Taiwan, China, and South Korea respondents were actually more likely to spare the older person over the younger. A good thing to know for us older travelers!

In countries with less income inequality, like Finland, executives and the homeless were treated almost equally when it came down to which to run down first. In countries with wide gaps between rich and poor, the poor were usually the ones chosen to end up under the wheels.

What decisions were universal? Most people surveyed in every country spared humans over pets, and groups of people over individuals.

In a summary of the MIT/Nature survey, they ranked the categories people thought should be protected first in any potential accident. Here they are in descending order:

1. Person with a baby stroller.
2. Girl.
3. Boy.
4. Pregnant woman.
5. Male doctor.
6. Female doctor.

On the flip side, here is the list of people (and animals) to be spared last:

12. Fat man.
13. Homeless person.
14. Old woman.
15. Old man.
16. Dog.
17. Criminal.
18. Cat.

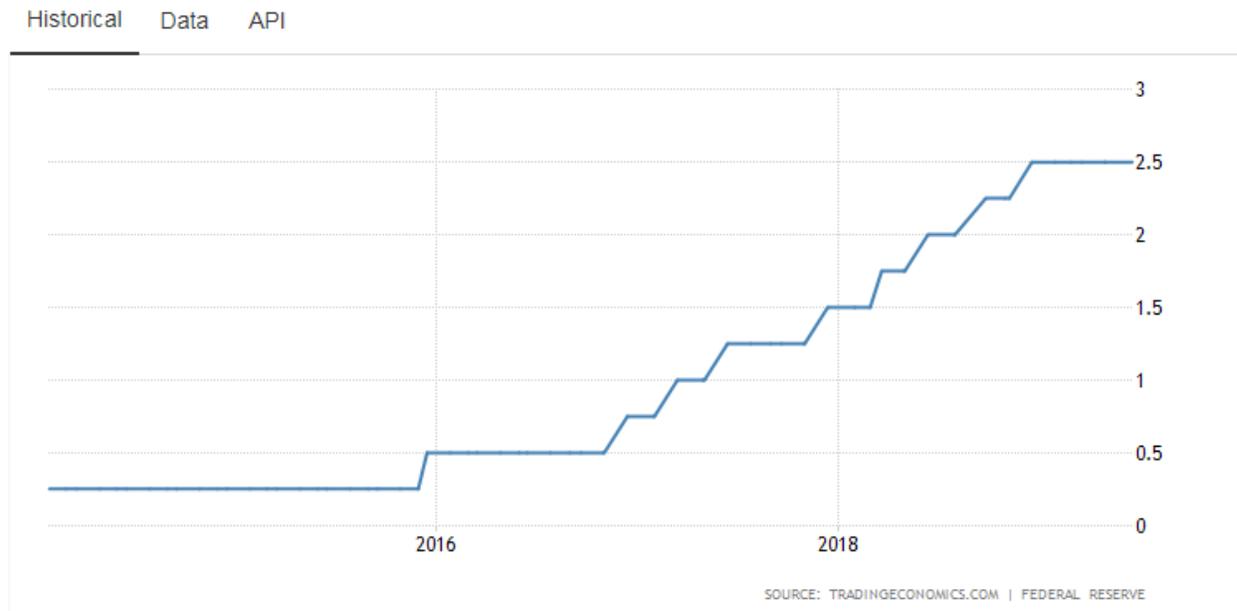
Note that none of the above choices involved sacrificing yourself - the passenger - to save someone else. This is actually a completely different ethical issue though it is getting its own share of research. Researchers have suggested an Ethics Knob that the passenger would select when entering the vehicle. The "Altruistic" setting would mean saving all others first. "Logical" would mean choose the path that saves the most lives, and "Egoist" would prioritize the passenger at all costs over anyone else.

Imagine God trying to fit an Ethics Knob on a clay tablet. We truly live in a different world!

Stocks Up, Economy Down

Stocks and bonds on both sides of the border have done well through the half-year. We have much to be thankful for on Canada Day (July 1st) and Independence day (July 4th).

Markets have been driven by one thing and one thing only this year: the prospect of lower interest rates. After two years of interest rate hikes from 0.25% to 2.50% in the United States...



...markets now expect at least two rate cuts by January. The chart below shows the current Fed Funds rate – the interest rate banks charge one another to borrow – versus the expected rate next January.

The first rate cut is widely expected at the end of this month.



Source: Bloomberg

Why does this matter?

Markets have not rallied because of good political news. Tariffs have been hiked by both China and the US this year, and Canada has been caught in the middle. Our canola, pork and beef have been frozen out of China's markets. The Trump tax cuts of 2017 were a huge driver of higher corporate profits. The problem is, these tariffs - which are just tax increases phrased another way - have essentially wiped out all the tax benefits.

President Trump of the US and President Xi of China met last weekend and declared a temporary truce in their ongoing trade war. It was welcomed by markets, but a pause is still a long way from the peace of a true trade agreement.

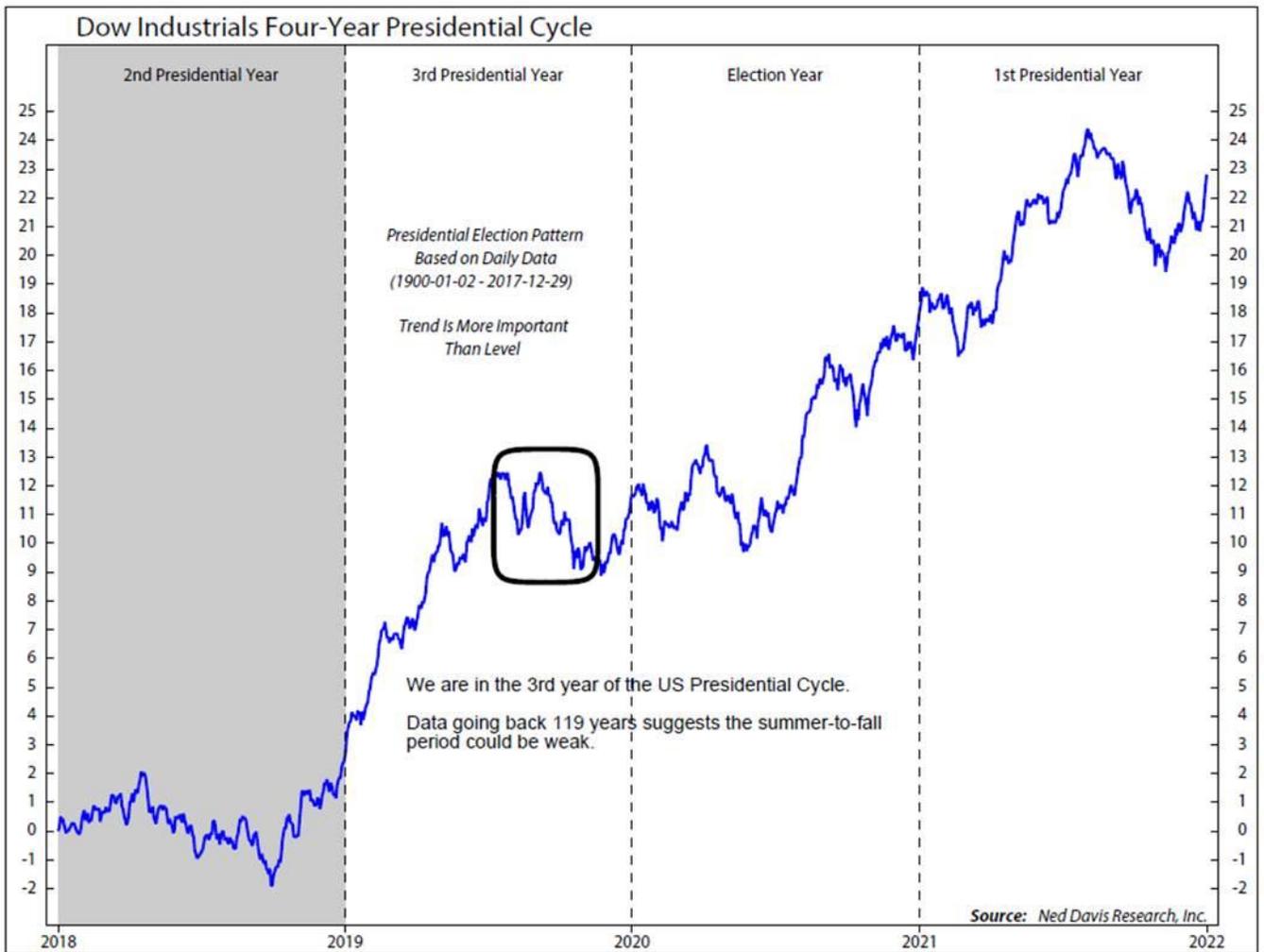
Meanwhile, global trade continues to slow and earnings estimates are falling. Of the 113 companies in the S&P 500 that have issued earnings guidance for June, 87 have issued negative guidance and just 26 companies have issued positive guidance (source: Factset).

The last pillar holding up the economy – strong employment – is also starting to fade. The ADP Employment report – a measure of private business hiring –

showed 102,000 new jobs in June 2019, which was less than the expected 140,000. May's 41,000 was the lowest number of new jobs since 2010.

We are not panicking, because falling interest rates are an enormous positive force on the stock market.

However, we do expect things to cool off over the rest of the summer. In this pre-election year, this is exactly what has happened in the past:



© Copyright 2018 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/

Stretching Out the Dollars

A common question we get from people considering retirement is “How do I make sure I don’t run out of money?” No one knows the exact day when they will leave this Earth, but it would sure make planning easier if we did.

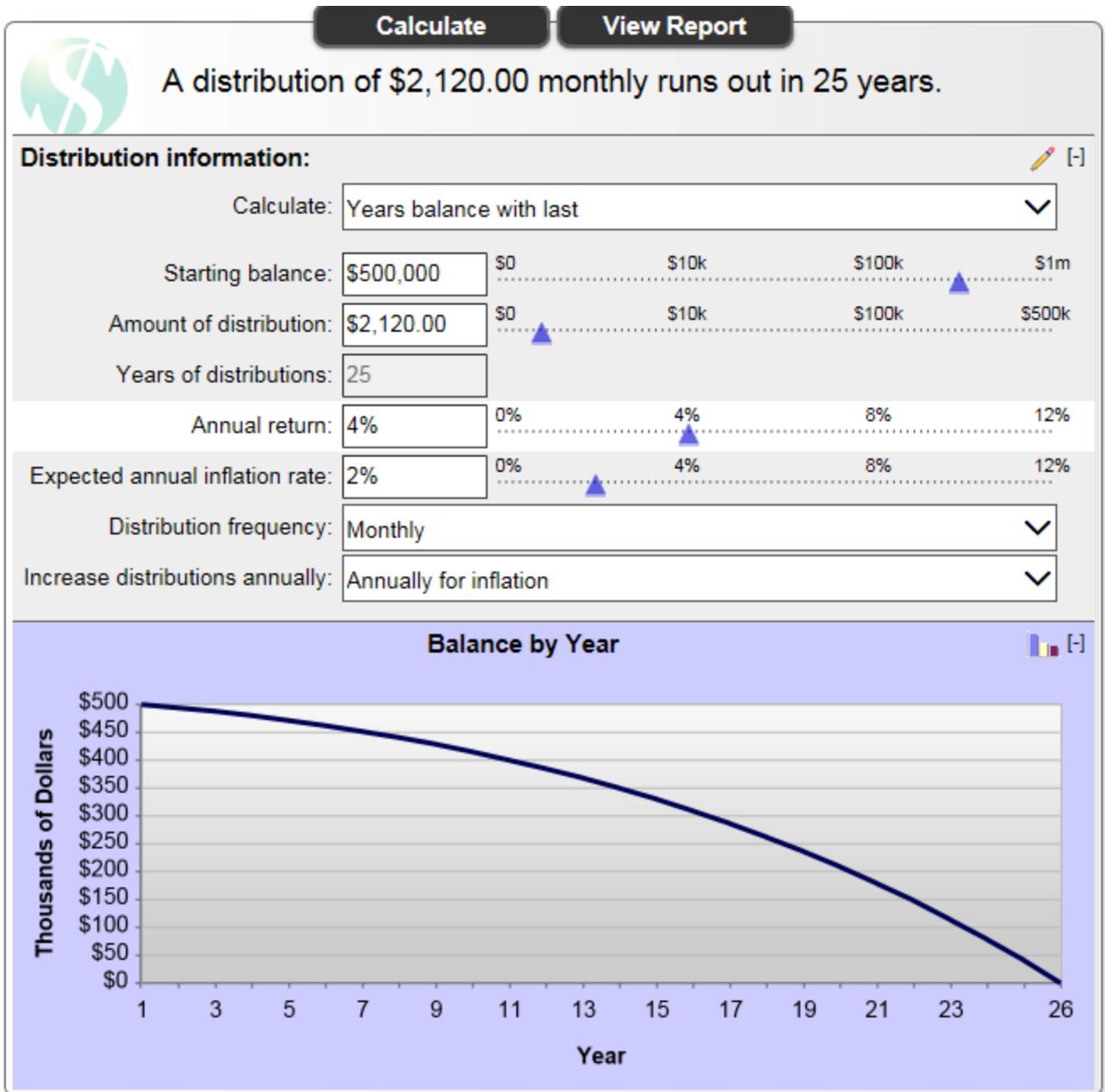
For those of us without large and guaranteed pensions waiting at retirement, outlasting our money is a big consideration. You can:

- Spend less in retirement – the “rice and bean diet” plan.
- Earn more on your savings. A 4% return won’t get you there? You don’t want to find yourself chasing hot stocks and bitcoin investments to try for a 25% return (hint: this never ends well).
- Spend less time in retirement.

It is this last idea that we suggest people think about. The math is simple: the longer you work, the fewer years your retirement dollars have to last.

For example, consider deferring retirement by a single year. How much does that help?

Say you have \$500,000 in a tax-deferred account, like an RRSP in Canada or an IRA in the US, and you retire at age 65. If you earn a steady 4% in a balanced account and withdraw \$2,120 per month, it would last to age 90. This is well past the average life expectancy of 82 years.



Source: mymoneycoach.ca

If you wait a full year and let the money grow at 4%, you get another year and 4 months out of the same savings. Almost 1 ½ years of retirement by holding off for one year.

Calculate

View Report



A distribution of \$2,120.00 monthly runs out in 26 years and 4 months.

Distribution information:



Calculate: Years balance with last



Starting balance: \$520,000

\$0 \$10k \$100k \$1m

Amount of distribution: \$2,120.00

\$0 \$10k \$100k \$500k

Years of distributions: 27

Annual return: 4%

0% 4% 8% 12%

Expected annual inflation rate: 2%

0% 4% 8% 12%

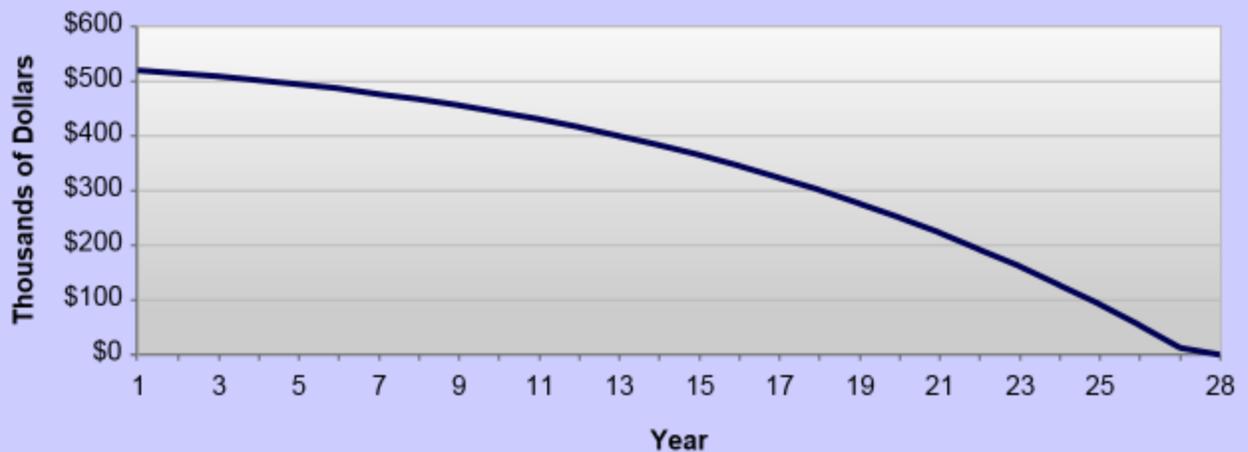
Distribution frequency: Monthly



Increase distributions annually: Annually for inflation



Balance by Year



Hold on - what if you were to use that extra year to not only grow your money, but to save an extra \$20,000?

Now, you have an extra year of 4% growth plus \$20,000 more in savings. This “buys” you almost three years of retirement spending.

Calculate

View Report



A distribution of \$2,120.00 monthly runs out in 27 years and 8 months.

Distribution information:



Calculate: Years balance with last

Starting balance: \$540,000

\$0 \$10k \$100k \$1m

Amount of distribution: \$2,120.00

\$0 \$10k \$100k \$500k

Years of distributions: 28

Annual return: 4%

0% 4% 8% 12%

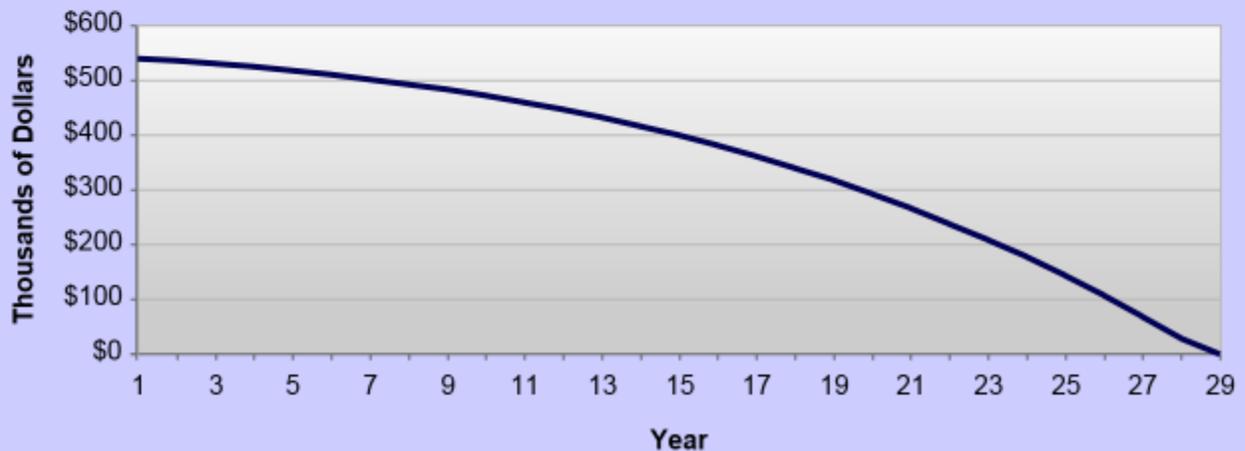
Expected annual inflation rate: 2%

0% 4% 8% 12%

Distribution frequency: Monthly

Increase distributions annually: Annually for inflation

Balance by Year



“Money is not a synonym of happiness but life is rough and tough without money.”

— T. P. Chia

Even scaling back and working part-time for a few years can make a big difference – you don't even have to save any money. Just don't spend any savings for a few years while you work less.

The other benefit to working longer is that government pensions jump higher with each extra year worked. The Canada Pension Plan hits you with a 6% discount for each year you start it earlier than 65. However, if you defer to after 65, the government boosts CPP payments by 7% per year. Social Security in the US has the same 6% discount per year for retiring sooner, but adds 8% per year for each year you defer after 66.

In 1950, the average life expectancy for a Canadian and American was 68 years old. By 2015, it was 82 years for a Canadian and 79 for an American (source: Our World in Data). We all need to plan on living longer, and stretching our money further.

People and Pets

Canada's 13th largest city by population is...Hong Kong. An estimated 300,000 people in Hong Kong hold Canadian passports. The recent riots in protest of the extradition bill mean some may soon be looking for homes on this side of the Pacific. There are approximately the same number of Canadians in Hong Kong as there are in Halifax.

Pets now outnumber children in America. According to the National Pet Owner's Survey, there are now 90 million dogs, 94 million cats, and 139 million fish in the USA, compared to just 74 million children. Spending on pets is growing at double the rate of the economy. Our portfolios hold Merck (**NYSE MRK**) whose animal health division is the third largest of this category in the world. Drugs for animals are approved much faster than drugs for humans and don't get fought over in national political debates. It is a very profitable segment of health care, and Merck's animal health division is a key component of Merck's tremendous growth.

As further evidence of the market's interest in pet investments, a new company called Chewy (**NASDAQ CHWY**) went public in June. Chewy aspires to be the Amazon (**NASDAQ AMZN**) of pet food, supplies, and now drugs. It is, for now, the largest company in this category but since its founding in 2011, it has still yet to make a profit. Chewy is competing with Amazon – the T-Rex in the on-line world – and its one-day shipping service.

For now, we see Chewy as a great place to visit for pet owners, but not so much for investors.

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

<http://www.dividendvaluepartners.com>

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

Amazon.com, Inc. - Raymond James & Associates, Inc. makes a market in the shares of Amazon.com, Inc.

Prices shown are as of close July 4th, 2019.

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.