



## JUNE 2016 NEWSLETTER

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### Market Review

The second quarter of 2016 was positive in Canada despite the anxiety caused by the United Kingdom's unexpected Brexit vote.

Due to our asset mix we fared much better than the headlines would suggest. Of our 25 largest stock positions, Johnson & Johnson, Fortis, BCE and Brookfield Infrastructure finished the month at all-time highs, and TransCanada Pipeline closed at a 52-week high.

Our real estate trusts, particularly Riocan and Canadian Apartment Properties, also had a very strong quarter.

In our March 2016 newsletter we highlighted our bullish view on oil prices, and since the end of March, the WTI oil contract rose from \$38.34 to \$48.37, a 26% increase. Our most recent oil purchase, Freehold Royalties has increased from \$10.36 on March 30<sup>th</sup> to \$11.91 on June 30<sup>th</sup>, a 15% increase.

Our positions in banks and insurers were flat to down slightly, and fortunately none of our major positions were in the UK, Japan, or Europe.

	<u>Jun</u> <u>30/15</u> <u>Close</u>	<u>Mar</u> <u>31/16</u> <u>Close</u>	<u>Jun</u> <u>30/16</u> <u>Close</u>	<u>90-Day</u> <u>%</u> <u>Change</u>	<u>1-Year</u> <u>%</u> <u>Change</u>
<b>S&amp;P 500</b>	2,063	2,060	2,098	1.8%	1.7%
<b>S&amp;P/TSX Composite</b>	14,553	13,494	14,064	4.2%	-3.3%

Source: Thomson One

<u>World Markets</u>	<u>YTD</u>
S&P/TSX Composite	8.11%
S&P 500	2.89%
iShares MSCI China ETF	-5.00%
S&P/TSX Preferred Index	-2.93%
DJ Stoxx 50	-9.14%
MSCI Emerging Markets	5.68%
MSCI Japan	-17.12%

As of June 30th, 2016

Source: Raymond James Ltd.

### Canadian T-Bills and Bonds Yields

	<u>Dec. 31, 2015</u>	<u>Mar. 31, 2016</u>	<u>June 30, 2016</u>
90 day	0.51%	0.45%	0.49%
180 day	0.51%	0.49%	0.51%
1 year	0.51%	0.53%	0.52%
2 year	0.479%	0.538%	0.521%
5 year	0.733%	0.675%	0.573%
10 year	1.399%	1.225%	1.064%
30 year	2.150%	2.004%	1.716%

Source: Thomson One

### International 10-Year Bond Yields

	<u>Dec. 31, 2015</u>	<u>Mar. 31, 2016</u>	<u>June 30, 2016</u>
Japan	0.26%	-0.04%	-0.23%
U.S.	2.27%	1.77%	1.47%
Germany	0.63%	0.15%	-0.13%
Canada	1.40%	1.23%	1.06%
U.K.	1.96%	1.41%	0.86%
France	0.98%	0.48%	0.18%
Spain	1.76%	1.43%	1.16%
Italy	1.59%	1.22%	1.25%
Portugal	2.49%	2.92%	2.97%
India	7.76%	7.46%	7.45%

Source: Bloomberg.com

We are experiencing amazing bond prices, with Japanese and German 10-year bonds actually having negative yields.

## Brexit

On Thursday, June 23<sup>rd</sup> the United Kingdom voted to exit the European Union. While Brexit got Sarah Palin's and Donald Trump's support, the British pound dropped 9.7% against the Canadian dollar (as of June 30<sup>th</sup>), the UK lost its AAA credit rating, and the EWU (an ETF that tracks the UK stock market) has dropped 7.1%. Perhaps the greatest damage was to UK bank shares.

	<u>June 23<sup>rd</sup></u> <u>NYSE Close</u>	<u>June 30<sup>th</sup></u> <u>NYSE Close</u>	<u>% Loss</u>
<b>Barclays PLC</b>	\$11.18	\$7.60	32%
<b>Royal Bank of Scotland</b>	\$7.49	\$4.70	37.25%

Source: Thomson One

**Barclays PLC – 2 month chart as of July 6, 2016**



Source: Bigcharts.com

**Royal Bank of Scotland – 2 month chart as of July 6, 2016**



Source: Bigcharts.com

While we have no direct exposure to European markets, some of our holdings have European business exposure (WSP Global and Power Financial Corp.). Markets around the world have fallen in sympathy, so no major market has avoided the recent correction.

Depending on your perspective, the Brexit is either a reckless self-inflicted wound, or a chance for the UK to rid itself from needless EU bureaucracy. From a financial markets perspective the leave vote is currently not looking helpful.

**IAN’S VIEWS**

**Immigration**

As a 20-year-old visiting the UK in 1977, I experienced a British breakfast of runny eggs and toast fried in bacon fat, followed by a lunch of cold steak and kidney pie with a quarter inch of congealed fat below the crust. Dinner was fish and chips cooked in lukewarm oil and served in newspaper. Endlessly boiled mushy peas seemed to be the only vegetable that they were aware of.

Fortunately I soon discovered Italian and Indian restaurants and was very grateful to their immigrant owners who served healthy meals that a backpacker could afford. With due respect to my own UK ancestors, cooking was never Britain’s strong suit, and any UK resident who hopes to avoid a coronary by age 50 has benefited from immigration.

**Globalization**

This year the Pittsburgh Penguins won the Stanley Cup. The team is made up of:

<b><u>Pittsburgh Penguins</u></b>	
<b>15 Canadians</b>	<b>1 German</b>
<b>11 Americans</b>	<b>1 Czech</b>
<b>3 Swedes</b>	<b>1 Russian</b>
<b>1 Dutch</b>	<b>1 Finn</b>

Source: Penguins.nhl.com

Hockey is an industry that enjoys cross-border mobility for its players. If the Penguins’ goal was to “save American jobs”, Sidney Crosby, Evgeni Malkin, and 21 other talented players wouldn’t have been allowed into the country. The same is true for most high-skill, knowledge-based industries, which prosper from gathering talent from around the world. Whether we want to win the Stanley Cup or enjoy innovation, we have to realize that our own countries do not have a monopoly on talent and we have to allow people to cross borders to make their contributions to humanity.

**Government Regulation**

Perhaps the most compelling reason to exit the EU is to avoid the formidable mountain of EU regulations. Hopefully the UK can forge more effective and practical regulations than the EU has.

## **When Doves Cry - \$300 Million and no Will**

This April, the world lost legendary recording artist and songwriter, Prince, who died suddenly in his home recording studio. Prince's \$300 million estate included music royalties from his 100+ singles, a bank-sized vault of unreleased recordings, and his 55,000 square foot Paisley Park compound. He did not leave one very important document, a Will.



With a Will, the typical estate takes approximately nine months to a year to settle and for the assets to be distributed to the surviving heirs. RRSPs, RRIFs and TFSA's with listed beneficiaries can be disbursed within a matter of weeks.

During his lifetime Prince married and divorced twice, and no surviving children came from those marriages. Nonetheless, there are several people who have come forward and claim to have been fathered by Prince. One notable claimant is a 43-year-old Connecticut woman. Prince passed away when he was 57. When you do the math, it's unlikely. While the majority of us don't have as colourful lives, it's best not to leave these things up to chance. If you want your heirs to avoid having to fight over your estate, make sure that you have a current Will.

It is also important to have a Power of Attorney prepared to make sure your affairs are looked after in case you are unable to do so yourself.

## **Outlook for the rest of 2016**

The current UK political crisis has given us an opportunity to selectively add to our favourite income producing investments. Our plan is to make these investments on a gradual basis, keeping in mind each client's liquidity needs and risk tolerance. Please call if you have any questions and have a great summer.

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*With the addition of Mark and Meaghan as Associate Advisors, we now have the ability to take care of more relationships. If you have friends who have expressed an interest in finding a new advisor, we would be delighted to hear from you. Just call our office at 250-729-2830 and we'll take it from there. Thanks!*

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