



## SEPTEMBER 2016 NEWSLETTER

### Market Review

**Ian Douglas, B.Comm, FCSI**  
 Senior Vice President  
 Financial Advisor  
 T. 250-729-2830  
 F. 250-729-2879  
 E. [ian.douglas@raymondjames.ca](mailto:ian.douglas@raymondjames.ca)

**Mark Duncan, FMA, PFP, CIM, FCSI**  
 Associate Financial Advisor  
 T. 250-729-2851  
 F. 250-729-2879  
 E. [mark.duncan@raymondjames.ca](mailto:mark.duncan@raymondjames.ca)

**Meaghan Douglas, B.Comm, PFP, CIM**  
 Associate Financial Advisor  
 T. 250-729-2860  
 F. 250-729-2879  
 E. [meaghan.douglas@raymondjames.ca](mailto:meaghan.douglas@raymondjames.ca)

**Lisa Cajolet**  
 Administrative Assistant  
 T. 250-729-2870  
 F. 250-729-2879  
 E. [lisa.cajolet@raymondjames.ca](mailto:lisa.cajolet@raymondjames.ca)

*Published for the friends and clients of*  
**Douglas Duncan Wealth Management**  
 Raymond James Ltd.  
 #1-5767 Turner Road  
 Nanaimo, BC V9T 6L8  
 Toll free: 1-866-729-2830  
[www.douglasduncanwm.com](http://www.douglasduncanwm.com)

Canadian and U.S. stock markets were strong in the third quarter as investors left Brexit fears in the rearview mirror. North American stock markets are trading close to all-time or 52-week highs, as the U.S. election approaches.

The current stock market rally has seen broad participation with many sectors and companies moving higher. Many of our stock positions are reflecting these moves and have hit new highs in the last quarter.

	<u>Sept</u> <u>30/15</u> <u>Close</u>	<u>Jun</u> <u>30/16</u> <u>Close</u>	<u>Sept</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>	1,920	2,098	2,168	3.34%	12.9%
<b>S&amp;P/TSX Composite</b>	13,306	14,064	14,726	4.71%	10.7%

Source: Thomson One

<u>World Markets</u>	<u>YTD</u>
S&P/TSX Composite	13.2%
S&P 500	6.08%
iShares MSCI China ETF	12.6%
S&P/TSX Preferred Index	1.59%
DJ Stoxx 50	-8.22%
MSCI Emerging Markets	13.8%
MSCI Japan	-12.8%

As of September 30, 2016

Source: Raymond James Ltd.

### Canadian T-Bills and Bonds Yields

	<u>Mar. 31, 2016</u>	<u>June 30, 2016</u>	<u>Sept. 30, 2016</u>
90 day	0.45%	0.49%	0.50%
180 day	0.49%	0.51%	0.52%
1 year	0.53%	0.52%	0.53%
2 year	0.538%	0.521%	0.516%
5 year	0.675%	0.573%	0.611%
10 year	1.225%	1.064%	0.993%
30 year	2.004%	1.716%	1.657%

Source: Thomson One

### International 10-Year Bond Yields

	<u>Mar. 31, 2016</u>	<u>June 30, 2016</u>	<u>Sept. 30, 2016</u>
Japan	-0.04%	-0.23%	-0.10%
U.S.	1.77%	1.47%	1.59%
Germany	0.15%	-0.13%	-0.12%
Canada	1.23%	1.06%	0.99%
U.K.	1.41%	0.86%	0.74%
France	0.48%	0.18%	0.18%
Spain	1.43%	1.16%	0.88%
Italy	1.22%	1.25%	1.18%
Portugal	2.92%	2.97%	3.30%
India	7.46%	7.45%	6.81%

Source: Bloomberg.com

Global bond yields continue to trade near historic lows representing a poor risk/return scenario. At one point this quarter, approximately 1/3 of all sovereign bonds had negative yields. The 50-year Swiss bond and 20-year Japanese bond went negative for the first time ever.

### OPEC Deal

Last week OPEC reportedly reached a deal to modestly cut the cartel's current oil output in an effort to stabilize global oil prices. This is the first deal OPEC has reached in eight years and involved a softening stance from OPEC leader, Saudi Arabia, and arch-rival, Iran. Since the deal was announced oil prices have moved higher and we expect this to create a short-term floor for the price of oil.

### Wells Fargo

On September 8 Wells Fargo announced a \$185 million fine after regulators found that some employees had opened unauthorized deposit and credit card accounts. The multi-year probe found that over two million accounts had been opened so that employees could hit financial product cross-selling targets to earn bigger bonuses. This resulted in 5,300 employees being dismissed over the past five years.

This is not the kind of story we want to see associated with any of our stocks, but when you look at the size of Wells Fargo we believe this is something the company can overcome.

- Wells Fargo employs over 265,000 people
- Does business with over 70 million customers

- Market capitalization of \$225 billion
- Reported profits of \$22.9 billion in 2015
- Stock was up the day of the announced fine
- By comparison, the following week US regulators announced a \$14 *billion* fine for Deutsche Bank

Wells Fargo came out of the financial stronger than the other U.S. banks, and established a strong reputation. This will certainly erode that sterling reputation and we can expect to see more costs associated with the scandal.

Chairman and CEO, John Stumpf, has personally felt the pain with over \$41 million in unvested equity being clawed back and he will forgo salary while an independent review takes place.

### **Warren Buffett**

All eyes will be on renowned investor and largest shareholder, Warren Buffett. Warren Buffett has said very little since the scandal broke and is reserving comment on Wells Fargo until November. If he were to announce a sale in the company it would certainly be a negative and send the stock price lower. We would be surprised if he did sell as it doesn't line up with his investing style. Mr. Buffett is the most successful investor of all-time by investing in companies with good long-term businesses, attractive valuations, and by tuning out the noise. Berkshire Hathaway, Warren Buffett's company, last bought Wells Fargo shares on October 21, 2015 (WFC: \$53.12). This year Berkshire announced that due to share buybacks, the company had reached the US Federal Reserve limit of 10% of all outstanding shares. At the moment Berkshire has an application pending to keep the shares they currently own and also have the ability to buy more in the future.

We diversify our investments to limit the risk of unforeseen events like Wells Fargo faces today. The shares have pulled back over the past few weeks, but are more likely to move higher as U.S. interest rates increase and Americans get wealthier. We have recommended that our clients continue to hold their investments in Wells Fargo and would be happy to discuss your investment if you have concerns.

### **What can we agree on?**

Last Monday Hillary Clinton faced off against Donald Trump in the most watched televised debate since the 1980 Ronald Reagan/Jimmy Carter debate. President Reagan won the election with a landslide victory and restored the Republicans to power for many years to come. Today the outcomes are much less certain. Both candidates have vastly different ideas on how best to lead the United States to prosperity.

Looking back over time, stock markets have performed well leading up to an incumbent party victory and 71% of the time the economy is not in recession, the incumbent stays in power. The stock market is close to an all-time high, and although the U.S. economy is not in recession, the Republicans will argue that the economy is not all that rosy, as many Americans have been left behind during this recovery.

Both Donald Trump and Hillary Clinton agree that the gap between the rich and poor continues to widen and something needs to be done to stop it. Although both have very different policies, one thing that they can agree on is that infrastructure spending would help spur economic growth. Clinton has pledged \$275 billion on infrastructure spending and although not as specific, Trump has pledged \$1 trillion.

We often hear client stories of the poor quality U.S. highways and the aging infrastructure they pass by. This bipartisan spending would make sense to us and would benefit our holding in WSP Global. WSP Global is a leading engineering firm with operations all over the world and derives more than 20% of revenues from the Americas division focusing on transportation and infrastructure.



### **Meaghan's thoughts on Vietnam**

This September I travelled to Vietnam and was amazed by how much the local economy had grown since my first visit in 2013. Construction often rerouted travel plans. The price for a bottle of beer had increased from one dollar to two. Locals watched YouTube videos on their smartphones. Every home seemed to have a flat screen TV sitting in the living room.

There is a growing middle class buying cars. In 2015 car sales volumes in Vietnam increased 55% and went up another 33% as of June 2016 (source: The Economist). There are all types of imported cars on the road from Toyota Corollas to BMWs and Range Rovers. None of these cars were clunkers; they were immaculate and had all the custom goodies. With more cars on the road oil demand will go up, potentially raising oil prices. This could benefit our energy holdings such as Suncor (SU) and Freehold Royalties (FRU) in the long term.

The Vietnamese are also beginning to purchase life insurance. One of our holdings, Manulife (MFC) had a visible presence in many cities with office buildings illuminated by large corporate signs. According to a 2015 press release, Manulife Vietnam increased its insurance sales by 69%, premiums and deposits by 39% and customer assets by 24% that year. For the first time, Vietnamese people have enough discretionary income to afford not just life insurance, but iPhones, clothing, fast food, etc. While emerging markets like Vietnam are currently out of favour, growth has continued, which should provide growth for multinationals serving those markets.

### **Christmas Present Ideas**

Registered education savings plans (RESPs) are useful for clients who have excess capital and are looking to pass along assets to the younger generations. Parents or grandparents can contribute up to \$2,500.00 each year per child into an RESP until the year the child turns 17 years old. The Canadian government will match 20% of annual contributions in grants. When the beneficiaries of the RESP are ready to attend a university or trades program after high school, the funds in the RESP can be used towards tuition, textbooks, rent, food, etc.

Please call if you are interested in opening an RESP for your children or grandchildren (or even great grandchildren). We are happy to answer any questions you might have.

## Team Update

This past May both Meaghan and Mark passed their applied financial planning certification exams and now hold the personal financial planner (PFP) designation. A leading industry standard, the PFP designation is recognized by the largest financial institutions in Canada. Holders of the PFP designation have demonstrated the knowledge and skills essential to assist clients with all their unique financial needs and are certified as comprehensive financial planners.

## Ian's Television Debut

On Sunday, November 13<sup>th</sup> at 6:30pm Ian will be speaking as a guest expert on The Wealthy Life on CHEK TV. If you can't watch it at that time, not to worry! Once the show has aired we will post a link to the segment on our website.

This newsletter was prepared by Mark Duncan and Meaghan Douglas.

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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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**Ian Douglas**

Senior Vice President  
Financial Advisor



**Mark Duncan**

Associate  
Financial Advisor



**Meaghan Douglas**

Associate  
Financial Advisor



**Lisa Cajolet**

Administrative  
Assistant

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