



## SEPTEMBER 2017 NEWSLETTER

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### Market Review

World markets have generally had a good third quarter, although in Canadian dollar terms the returns are more muted. World economic activity has strengthened and inflation has been stable in the developed countries, creating a good environment for investing.

	<u>Sept.</u> <u>30/16</u> <u>Close</u>	<u>June</u> <u>30/17</u> <u>Close</u>	<u>Sept.</u> <u>29/17</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>	2,168	2,423	2,519	3.96%	16.2%*
<b>S&amp;P/TSX Composite</b>	14,726	15,182	15,635	2.98%	6.17%

Source: Thomson One

\*In Canadian dollar terms the S&P 500 is up 9.98% over the last 12 months.

<u>World Markets</u>	<u>YTD</u>
S&P/TSX Composite	2.27%
S&P 500	12.5%
iShares MSCI China ETF	44.3%
iShares S&P/TSX Preferred Index ETF	6.87%
DJ Stoxx 50	5.60%
iShares MSCI Emerging Markets EFT	28.0%
iShares MSCI Japan EFT	14.0%

As of September 29, 2017

Source: Thomson One

### Canadian T-Bills and Bonds Yields

	<u>Mar. 31, 2017</u>	<u>June 30, 2017</u>	<u>Sept. 29, 2017</u>
90 day	0.53%	0.72%	1.01%
180 day	0.55%	0.83%	1.13%
1 year	0.64%	0.97%	1.38%
2 year	0.744%	1.094%	1.513%
5 year	1.111%	1.378%	1.749%
10 year	1.621%	1.750%	2.096%
30 year	2.301%	2.129%	2.471%

Source: Thomson One

### International 10-Year Bond Yields

	<u>Mar. 31, 2017</u>	<u>June 30, 2017</u>	<u>Sept. 29, 2017</u>
Japan	0.06%	0.07%	0.05%
U.S.	2.39%	2.30%	2.33%
Germany	0.32%	0.46%	2.83%
Canada	1.62%	1.75%	2.10%
U.K.	1.14%	1.25%	1.36%
France	0.96%	0.81%	0.74%
Spain	1.64%	1.51%	1.59%
Italy	2.30%	2.14%	2.10%
Portugal	3.93%	3.00%	2.34%
India	6.67%	6.51%	6.66%

Source: Bloomberg.com

Yields have been rising in most countries, with Canadian yields increasing significantly. This indicates that bond investors expect improving economic activity. A “steep” yield curve when long term rates are much higher than short term rates indicates an optimistic outlook. A “flat” or “negative” yield curve would give us reason to be more risk adverse.

### Government of Canada 11-Year Bond

Many of you have been asking why we are holding such a high percentage of daily interest accounts (cash equivalents) in your portfolios. Historically, to provide safety, diversification, and income we have held a sizeable portion of clients’ portfolios in bonds. However for the last few years we have found the risk/reward relationship to be unacceptable.

For example, 11-year Government of Canada bonds were issued on August 23, 2016 at \$979.85 paying a 1% coupon per year. With the 1% coupon, the bond holder can expect to earn 1.02 % per year over 11 years until the bond matures on June 1, 2027. As of September 29, these bonds traded at \$904.18, a 7.72% decrease. While a 7.72% decrease is not huge compared with many securities, considering that the maximum return over the 11 years is 11.22%, a lot of interest rate risk was incurred for a very small return.

The good news is that our largest daily interest account (Manulife Bank premium investment savings account) has increased their rate from 0.9% to 1.1%. We will be delighted to purchase investment grade bonds again when the risk/reward relationship is acceptable.

## Headline Investing

To be successful investors we should keep up with consumer trends, technological innovations, and economic news. However, we should always be careful to analyze the credibility of the source and consider the importance to the economy before making investment decisions based on media headlines.

If you read the headlines in U.S. newspapers, South Korea is at risk of an imminent nuclear attack from North Korea.

Below is a chart of EWY-US, the ETF for South Korea's stock market. It is up 29.8% year to date (compared to 2.27% in Canada). Clearly South Korean investors have less concern about their northern neighbours than American politicians and news media.

**iShares MSCI South Korea Capped ETF YTD Chart**



Source: bigcharts.com

## Breakout in Toronto Market

While no chart can predict the future, the TSX appears to have broken out of the downward trend that started on February 28. As illustrated below, the S&P/TSX Composite Index bottomed on August 21 and began to recover in mid-September. As of September 30 the market has gained 4.6% from the bottom.

**S&P/TSX Composite Index YTD Chart**



Source: bigcharts.com

With world economic activity strengthening we expect economy sensitive companies (banks, insurers, energy) to do well over the next few months. However, due to the length of the bull market that started in March of 2009, rising interest rates and potential geopolitical accidents, we continue to hold cash on the sidelines to take advantage of any future pullback in the market.

### **Mark and Meaghan are now Certified Financial Planners**

In June, Mark and Meaghan passed their exams to earn the certified financial planner (CFP®) designation. The CFP course and its prerequisite courses require over two years of study in a variety of topics including investment management, and retirement, estate, tax, and insurance planning.

We believe it is our obligation to have the highest level of education and skills to assist our clients with their financial decisions, and the CFP studies should assist in this goal.

### **Linley Point Gyro Park**

Outside of the office Ian and Mark volunteered to build the playground equipment at Linley Point Gyro Park. Mark spearheaded the project for the Nanaimo Gyro Club which has a long history of building parks and supporting kids. Children from the Linley Valley neighbourhood will now be able to enjoy this park for many years to come.



## Summary

We hope that you all had a terrific summer and are looking forward to the fall season. We continue to monitor the markets searching for investment opportunities and will let you know as they become available.

If you have any questions about financial planning or investments, please call.

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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. Our team is licensed in many provinces in Canada as well as BC. Just call our office at 250-729-2830 and we'll take it from there. Thanks!*

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