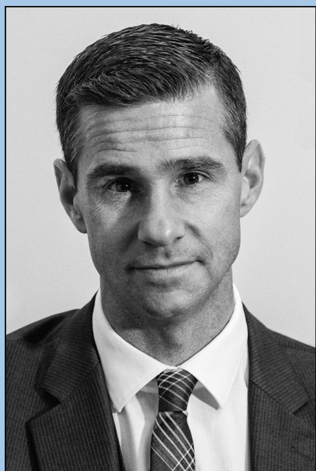
Spring 2017

Financial Insights



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In This Issue

I am not sure if it is just me, but the winter seemed to drag on a little too long this year. Recently, I was in Los Angeles to attend a conference, and I really noticed the difference that a few days of sunshine can make. Here's to an early summer. Being inside a little more isn't all that bad. I have had some time to listen to my favorite podcasts, build Lego spaceships with my son, and study for an industry exam. Just because the weather isn't optimal, doesn't mean you have to hibernate. Anyway, I am sure we will all get outside soon to enjoy the fresh air.

It has been no surprise that US politics is at the forefront of the media's attention. Specific to Canada, trade issues are heating up as we discuss the implications of a NAFTA redraft and the Softwood Lumber Treaty. Up until last week, President Trump's comments on Canada were benign. His visit to Wisconsin dairy farmers may underline a renewed emphasis on protectionism. He criticized Canada for being "very unfair" in its treatment of the US dairy industry. I rarely agree with the man, but he does have a point. Two pertinent details are worth noting. Our government announced a $350 million compensation agreement for Canadian dairy producers to counteract the impact of foreign cheese imports under the newly minted Canada-European trade deal. Canada's Export and Import Permits Act (EIPA) also imposes tariffs in excess of 200% on assorted milk products into Canada.[1] Clearly, the US is not the only nation which is trying to protect its industries from foreign competition. Unfortunately, the end result of all of this protectionism, on either side of the border, is higher consumer prices.

The first quarter of 2017 is behind us, and for the most part, our statements have reflected decent gains since the start of the year. The path has been variable, however, as geopolitical tensions play out between the US, China, Russia, and North Korea. I hope that cooler heads prevail and we can shift our attention back to earnings growth and general economic improvement. Regardless, we should always position any of this commentary in the context of our own, unique financial situation. For the most part, the vibrations of global discontent should not derail us from achieving our financial goals. Enjoy the stories, but don't let them have a hold over your rational mind.

I hope this newsletter finds you in good health and sound mind. As always, we are a progressive feedback loop which looks to improve the content and quality of commentary.

Many Happy Returns,

PA Choquette

Patrick A. Choquette

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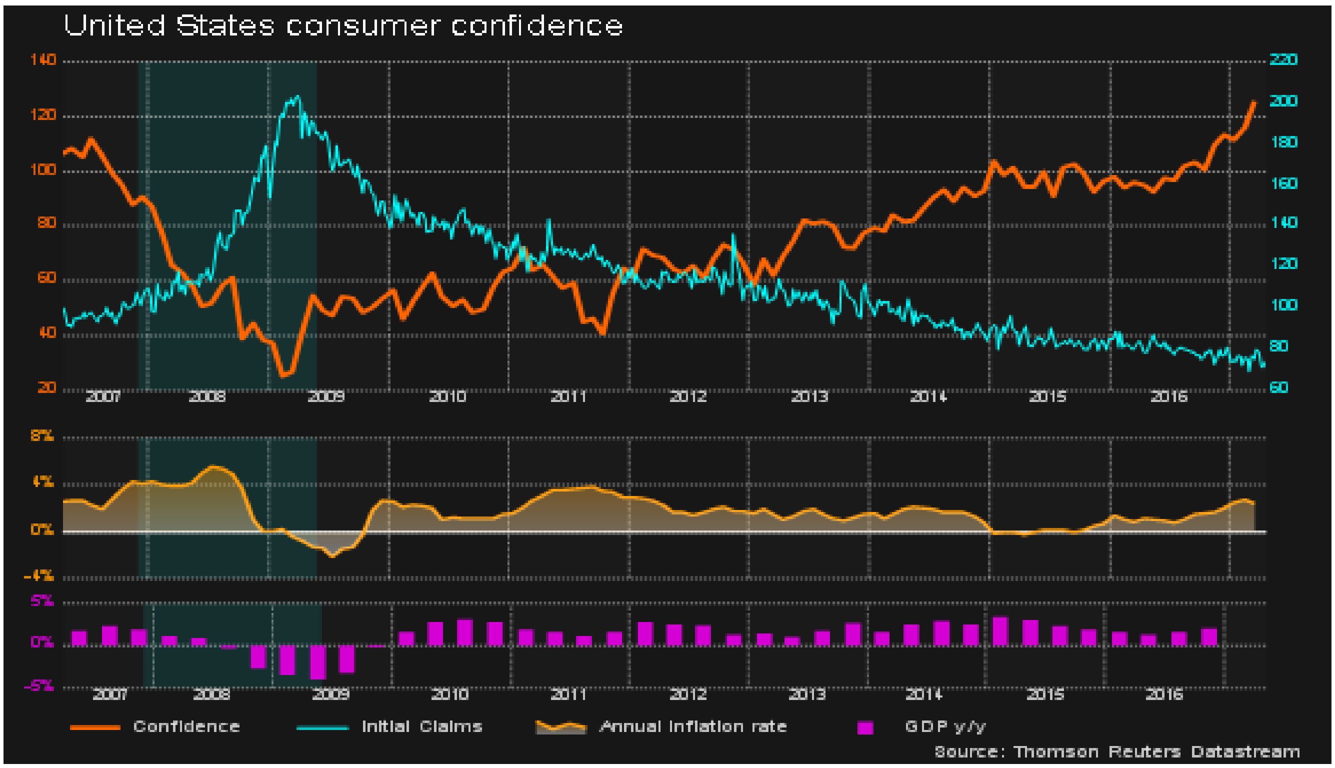
Source: [1] Please see "The Globe and Mail" front page article for Wednesday, April 19, 2017 for a fuller discussion.

Is the US consumer alive?

The short answer is yes, and we all know why that is an important thing. Personal consumption expenditures account for 70% of US gross domestic product. Keep in mind that consumer spending is the result of a vibrant economy and not the cause of it. As you can see below, confidence has risen above the highs posted back in 2007 and broken out from the range between 2014-2016. This is good news. The blue line shows a declining number of initial unemployment claims since the high in 2009. Once again less people becoming unemployed is positive for consumption levels.



Finally inflation levels are low and manageable and we have seen consecutive GDP quarterly year-over-year growth since the financial crisis. Some might say the consumer confidence looks too good to last, and that we should be mindful of a correction. I disagree. It has taken time to eclipse the old highs and increases in wages continue to provide a tailwind to consumer spending. Heck, I just bought an Apple. Of course, this doesn't mean that we just put this chart away and forget about it. It should be reviewed quarterly to see if a change in trend is developing. Realistically, we will find this out first through our analysis of the US equity markets as stocks lead the economy. For now, the US consumer is healthy!

Horizons Seasonal Rotation ETF (HAC.TO)

As many of you know, I am fond of using seasonal analysis in my evaluation of strength and weakness in the markets. Horizons, a Canadian exchange traded fund (ETF) company, has an offering which allows investors to profit from money flows in and out of stock market sectors, fixed income, cash, and geographic locations. The portfolio manager is Brooke Thackary and he has been the lead manager since the fund's inception in 2009. The ETF is considered an Alternative investment strategy, so its purpose is to diversify away risk, add return, and be non-correlated to the market. Let's see how it's done since 2009 compared to the TSX Total Return.

Source: Thomson Reuters Eikon

The orange line is the rebased performance of HAC.TO since inception, and the pink line is total return of the S&P TSX Composite. While the numbers may be hard to see, HAC.TO has outperformed the TSX on an absolute basis by roughly 2:1. So it is definitely worth a look. The bottom pane is the 50 day correlation between the two. In finance, correlation measures the degree to which two securities move in relation to each other. What's interesting to note is that HAC.TO spends periods of time when it is either negatively correlated or non-correlated to the TSX. A visual inspection shows that these periods tend to create opportunities for HAC.TO to shine relative to the TSX. A further point to consider is that HAC.TO has exhibited less historical drawdown (peak-to-trough fall) than the TSX. On a risk-adjusted basis, it is a compelling consideration. In case you are wondering, I hold this position in my discretionary managed portfolios, but it may be suitable for those of you outside of the program. Please contact me if you would like further information.

Administrative Corner

Brittany Potter
Branch Administrator

2017 TFSA Contribution Limit

The annual TFSA contribution limit for 2017 is $5,500, total allowable contribution limit is now $52,000. If you are interested in making a contribution or opening a TFSA, please do not hesitate to contact us by phone or email.

Protected Emails

Protected emails, also known as encrypted emails, are used to communicate private and personal information to you. This password-protected mode is our firm's effort to keep third-party cyber-hackers from accessing your information. Emails that contain [PROTECT] in the subject line have been encrypted; such emails expire after three days whether they have been opened or not. If you are having troubles gaining access by username and password or the email has expired, I will be happy to assist you upon request.

Wine Pick of the Season:

PROSECCO FRIZZANTE-VILLA TERESA ORGANIC $17.49/ 750ML

This is a sweet, low alcohol, sparkling wine from Italy. On its own, it is okay. Yes, that's right, just okay. Add the juice of two blood oranges and something magical happens. Don't believe me? Try it and find out for yourself. I must thank my cousin Angela for the discovery.

Cheers!

Notable Quote:

"A creative man is motivated by the desire to achieve, not by the desire to beat others."

- Ayn Rand