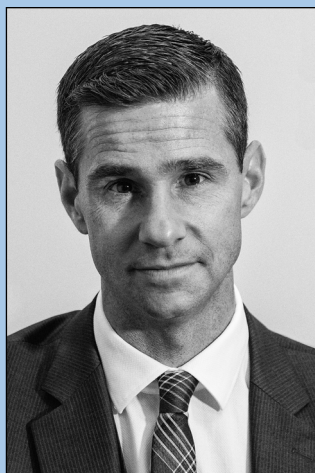


Financial Insights



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I trust by now that we are all back into the busy swing of the fall. For those of you who choose to take this time to travel, and get away from domestic crowds, I wish you safe journeys. For those of us who remain behind, well, I hope we continue to see the nice weather of the summer. It's funny, but I think we forget about the rest of the world here in Canada. The insanity of North Korea, the devastation in the Caribbean, the geopolitical divide in the US, and the endless onslaught of crimes against humanity, have a diluted presence in our country. I, for one, am very thankful of this fact. This isn't to say that bad stuff doesn't happen to Canadians. The wild fires of central BC are a case in point, and horrendous crimes on our shores seem to be in the press more often than not. But there are not devils behind every bush. I do not fear for the safety of my family when we go for a Sunday stroll down to Ft. Langley, which is more than I can say for the citizens of Ramallah. I guess what I am trying to convey is that we are very fortunate to live in a relatively peaceful, respectful, and stable society. And yes, I do realize that our system is far from perfect. There needs to be a balanced approach to economic fairness in this country that doesn't unduly penalize the risk-taker, for example. When asked what it's like to live in Canada, and especially the lower mainland, I liken it to winning a kind of geographic lottery. No wonder so many people want to settle here.

On to things related to financial markets. The TSX was flat to underwater for most of the 3rd quarter and then staged an impressive rally for the month of September. Year-to-date the TSX is now up 4%¹. There was also a similar trajectory for US markets. The unhedged S&P500 had a strong September as the USD appreciated over 3% relative to the CAD. The strength in the equity markets contrasted with renewed weakness in fixed income as yields backed up. The broad Canadian bond market declined for the quarter as the BOC raised rates again in September to 1%. For the year, Canadian broad bonds are up a hair at 0.27%². One can only ponder what is on the mind of BoC Governor Stephen Poloz as we approach the next rate meeting on October 25. Clearly the field is split on whether he will raise rates or not. Keep in mind that 1% is the rate we had before the aggressive cut back in 2015 to counteract falling oil prices.

Please enjoy the contents of this issue and make sure to pass on your thoughts for topics to cover in the future. I wish you a prosperous and healthy fall!

Many Happy Returns,

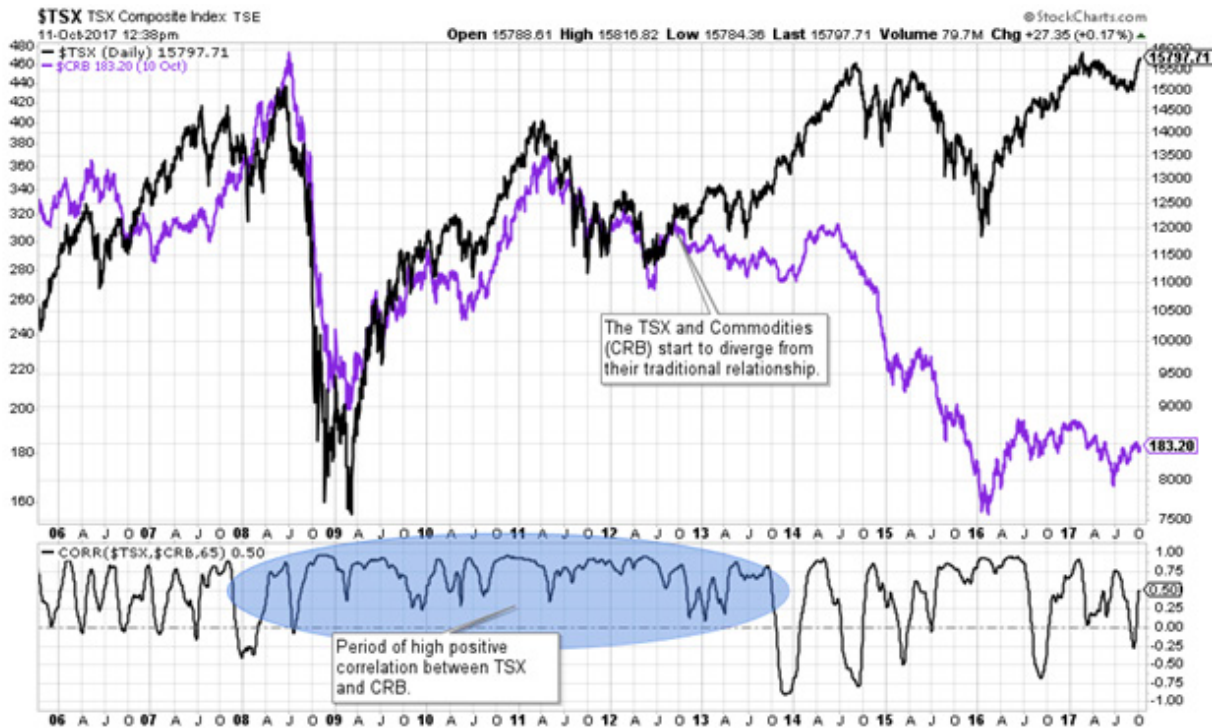
Patrick A. Choquette

¹The XIC.TO (iShares Capped Composite ETF) total return from (12/30/2016-09/30/2017) was used to reflect Canadian equity returns.

²The XBB.TO (iShares Core Canadian Universe Bond ETF) total return from (12/30/2016-09/30/2017) was used to reflect Canadian bond returns.

Things That Make You Go, Hmm?

As many of you know by now, I am very fond of visual analysis. It's hard to dispute the old adage: "A picture is worth a thousand words", and so I wish to direct your attention to the relationship of the price of the TSX to the price of commodities. Pictured below is a plot of the levels of the TSX and commodities (CRB) in the first pane, and the three-month rolling correlation of these figures in the next³. Correlation is a simple concept. It measures the strength of the relationship between two variables (in this case price). The range is always between +1.0 and -1.0. Positive values mean that both securities mirror the movement of each other as in 2008-2013. Notice at times the correlation is almost perfectly positive. Negative values show an inverse relationship as in the fall of 2013. When correlation reads 0, it means that there is no relationship between the two figures compared.



Here's what I think is worth noting about the above chart:

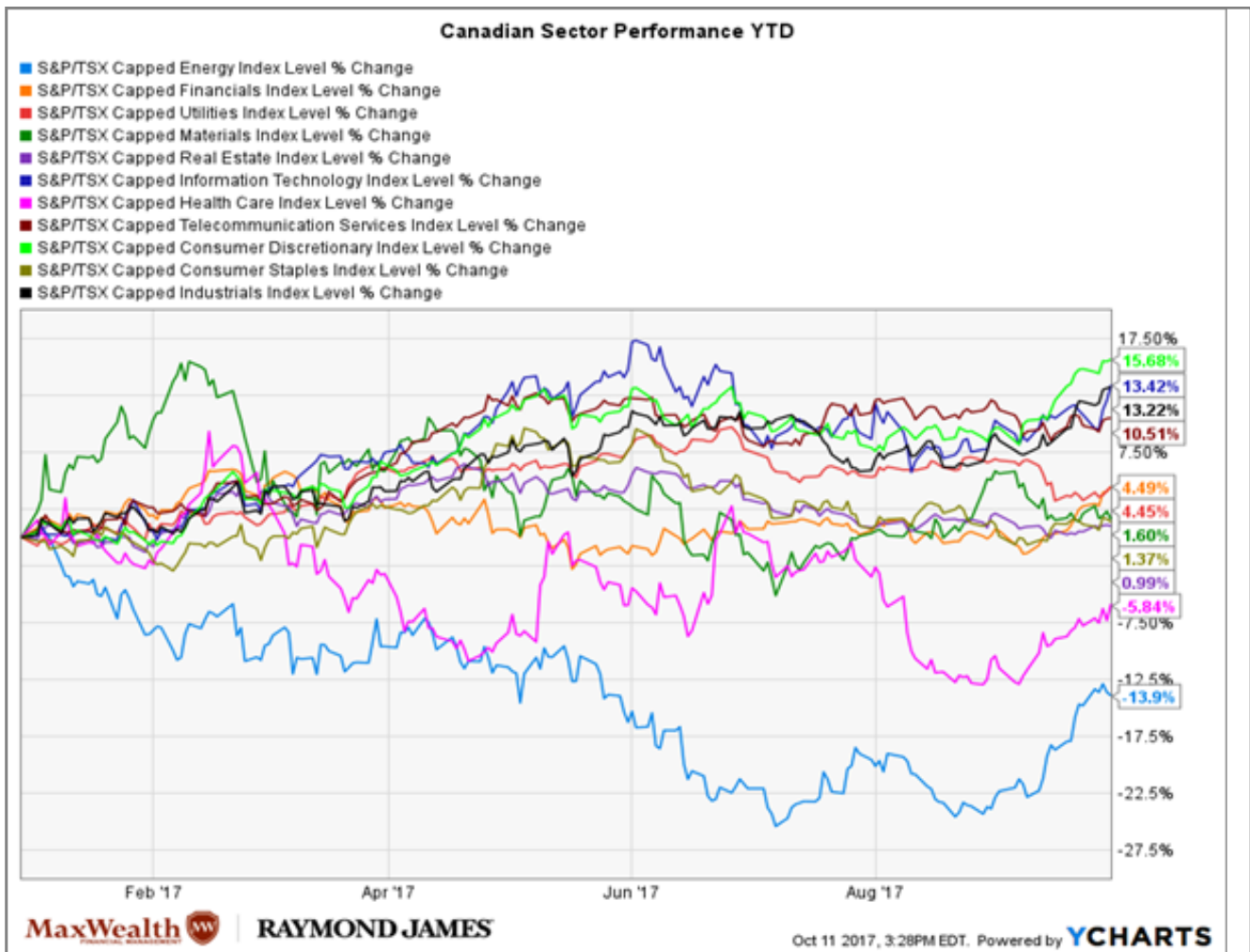
- 2013 marks an interesting change in the relationship between the TSX and CRB. The strong positive bias is uncoupled and a higher frequency of negative correlations is present. While the TSX rallies above price resistance in 2011, the CRB, in contrast, starts a steep descent.
- High positive correlation occurs in 2016 again, but the effects are short-lived as the correlation oscillates back-and-forth over the zero line. The CRB cannot sustain its rally in 2016, and declines again, but price support is higher this time. The TSX cannot stage a rally that demonstratively breaks out above the peaks in 2014, 2015, and 2017.

My Interpretation of the findings: I think that the TSX will be range bound until we see bullish price confirmation from the CRB. Roughly 40% of the TSX market capitalization is linked to commodities and the increasing negative correlation of the CRB may be the link to why the TSX cannot clear overhead resistance⁴. I believe that the CRB needs to participate in TSX rallies or the move is suspect and likely to fail. Arguably, one way to measure this would be high positive correlations in conjunction with bullish price movements from both the CRB and the TSX. I think if the CRB can clear the 200 level and the correlation spikes to +1.0, the TSX should breakout impressively. Keep in mind correlation only shows the strength of the relationship and not the reasons why.

³A 3-month period was arbitrarily selected as a timeframe to show a smoothed correlation coefficient. Other timeframes can, and should be used, to reflect different relationships in the market cycle.

⁴Source: YCharts.

Sector Review



The above chart displays the performance of the 11 different sectors that compose the TSX. Through careful examination we can get a sense of the strength in the market and a potential understanding of where we are in the market cycle. The top three sectors, in terms of absolute performance, are consumer discretionary, information technology, and industrials. The bottom two sectors are energy, and healthcare. So, what does this tell us about the health of the overall market? A general observation is that it describes a strong consumer demand for goods and production. This is one sign of a recovering economy and an up-trending stock market. It makes sense if people consume goods, buy technology, and increase industrial output chances are prices are going up. Energy and healthcare may be lagging for a variety of reasons, for example, Valeant (VRX) is a large component of the healthcare index and energy faced early declines in the year as oil prices fell. What is constructive, however, is that according to Sam Stovall's sector rotational model, strength in cyclicals, technology, and industrials surface in the early-to-mid cycle of a bull market and strength in energy and healthcare happen at market tops and the eventual declines afterward⁵.

⁵See link to [https://stockcharts.com/freecharts/perf.php?\[SECTCA\]](https://stockcharts.com/freecharts/perf.php?[SECTCA]) for a discussion of Sam Stovall's market analysis.

Administrative Corner



Brittany Potter
Branch Administrator

The government of Canada website, www.Canada.ca, has two types of informational accounts individuals can sign up for: “My Service Canada Account” and “My Account for Individuals – Canada Revenue Agency”. It is important to sign up for both of these accounts as they provide useful financial information that we often times ask for. I’ve outlined the types of information available through each of these accounts.

“My Service Canada Account”:

- Canada Pension Plan (CPP)
- Old Age Security (OAS)
- Employment Insurance (EI)

“My Account – Canada Revenue Agency”:

- Tax information such as tax slips, tax returns, notices of assessments and reassessments
- RRSP deduction limit
- TFSA contribution room
- Home Buyers and Lifelong Learning Plan
- Child tax benefit
- GST/HST credit information

And more...

If you have any questions or require any help with the sign-up process please do not hesitate to reach out to me.



Wine Pick of the Season:

GRAN PASSIONE ROSSO \$21.99/750ML

My thanks go out to John for introducing me to this tasty Italian red. It’s a heavy, textured red that hits well above its reasonable price point. Enjoy with salty meats and pungent cheeses!

Notable Quote:

“You have to know how to accept rejection and reject acceptance”

- Ray Bradbury

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