MONEYSTRAT® SECURITIES INC

MONEYFILE
FINANCIAL STRATEGIES
INVESTMENTS • TAX • INSURANCE • WILLS • ESTATES

Fall 2016

David Brodigan

Geordon Ferguson

Margôt Adam

Paul Mancuso

FOCUS ON INVESTING

The world's most vibrant economy is all business

One of the most talked about U.S. election cycles in recent history is coming to an end. Whoever wins the presidency is going to inherit a resilient and diversified economy that is on a clear path to recovery. For investors, that means opportunity.

U.S. Federal Reserve Chair Janet Yellen recently touted the strength of the U.S. economy, saying it had "made tremendous progress in recovering from the financial crisis." Yellen also noted that the labour market is nearing maximum employment, with an enviable unemployment rate of just 5%.[1]

Thanks to low oil prices, inflation is still moderate and interest rates remain accommodative, which is allowing consumers to spend — all positive factors for investors.

Why buy U.S.?

For Canadians, investing in the U.S. brings a number of benefits — starting with diversification. With about two-thirds of the Canadian market devoted to the financial and resource sectors, our market lacks the diversification of the United States.

By sticking too close to home, Canadian investors may miss out on opportunities in sectors better represented south of the border — such as information technology, health care, and consumer products. In addition, many companies in these innovative sectors do a great deal of their business in foreign markets, which provides Canadians with international exposure.

Easy and convenient

With ready access to stocks listed on the S&P 500, NASDAQ, and other U.S. exchanges, it's easy and convenient to add U.S. exposure to a Canadian portfolio.

We can help you review appropriate choices for your portfolio. ■

1 Bloomberg.com, "Yellen Says U.S. Near Full Employment, Some Slack Remains," April 7, 2016.

Fast tips for slow economic growth

MUTUAL FUNDS

The International Monetary Fund (IMF) recently warned about persistently slow economic growth, citing an unfavourable global environment, weak commodity prices, and the strong U.S. dollar. The IMF also referred to China's shift from a manufacturing and investment-driven economy to one based on services and consumption.

What are the key factors driving these trends and what do they mean for mutual fund investors? Let's take a look…

Rise of the Chinese consumer

China's economic boom of the past few decades was driven by investing heavily in factories and infrastructure and then exporting manufactured goods to the rest of the world. Now, China is embarking on an economic rebalancing designed to encourage Chinese consumers to spend more.

The rebalancing efforts are expected to see Gross Domestic Product levels slow to the 5% to 6% range, after explosive growth of 8% to 10% in the boom years.[1]

But it's not just China's move to a more balanced economy that is contributing to a new era of slowing growth. There are other contributing factors, including aging populations, a shrinking labour pool in developed countries, low interest rates, and a reduced appetite for risk.

Boomers spending less

In Canada and the United States, baby boomers are expected to cut back their spending as they move into their retirement years. The boomers are the biggest demographic group in Canada's history, and as they exit the workforce in the years ahead, the labour force and the economy will slow.[2]

Indeed, former Governor of the Bank of Canada David Dodge recently stated that "we're in a lower-growth world" and advised investors to prepare for this new normal.[3]

The good news

While slowing growth becomes the norm, new opportunities are emerging for mutual fund investors:

Technology funds. Innovation will be a heavy hitter in a slow-growth world. As businesses cut expenses in response to slower growth, companies are looking to technology solutions to give them a competitive advantage and allow them to do more with less.

Today's technology mutual funds are more than just hardware and software. Cloud computing, mobile technology, and social media are also part of the technology universe. And unlike their speculative dot-com predecessors, many of today's tech companies are grounded by strong fundamentals.

Emerging market funds. Emerging markets will slow along with China in the coming years. But they are still expected to grow at a clip of more than 4% in the near term.[1] That's more than double the projected rate of growth of developed nations like Canada and the United Kingdom.

Funds that tap into the global consumer. Emerging market consumers are younger than their North American and European counterparts and more likely to spend on the latest consumer goods. Plus, as their earnings rise, they will have more disposable income. As consumer demand in emerging markets rises, consumer discretionary funds may benefit.

Broad-based U.S. mutual funds. Many of the largest U.S. companies now do a significant part of their business abroad and are keenly focused on emerging markets. Large, diversified U.S. funds can provide Canadian investors with an extra level of diversification — and help them tap into emerging opportunities.

Health care funds. Aging populations will become larger consumers of health care-related products. Today's diversified health care funds include pharmaceuticals, biotechnology, managed care companies, and makers of medical equipment.

Dividend funds. Persistently low interest rates mean that investors looking for yield are turning to dividend funds to generate some of the income they need — especially in an environment where interest rates are expected to stay low.

A big part of our role as your advisor is to stay on top of economic developments that could affect your portfolio. We will review appropriate funds for your portfolio with a goal of positioning you for the new normal. ■

---

1 The International Monetary Fund (IMF), World Economic Outlook Update, "Subdued Demand, Diminished Prospects", January 2016.
2 Statistics Canada, Canadian Economic Observer, "Projected trends to 2031 for the Canadian labour force," August 2011.
3. Rachelle Younglais, *The Globe and Mail*, "David Dodge's message for investors: 'This is a lower growth world,'" April 22, 2016.

INVESTING

Advice creates value — for your savings and for the economy

Navigating the choppy markets we've seen over the past few years can test even the most seasoned investor's commitment. This kind of market climate shows the real value of advice and professionally managed mutual funds. Recent research backs this up:

- 84% of mutual fund investors say that they are satisfied or very satisfied with the advice provided by their advisors.[1]
- 92% of investors say they have earned more from their investments by working with an advisor.[2]

It's not just individual savings' rates that increase. Advice delivers benefits to individuals, families — and even the economy. In fact, if an additional 10% of Canadians worked with an advisor, household wealth would increase by $4.8 billion and the Canadian economy would grow by an additional $2.3 billion over the next 45 years.[3]

Whether investors start small or large, the benefits of advice accrue to all. About a quarter of mutual fund investors had less than $5,000 in financial assets when they started working with an advisor, and more than half had less than $25,000.[1] ■

1 Pollara Research, Canadian Investors' Perceptions of Mutual Funds and the Mutual Fund Industry, 2015.
2 Investment Funds Institute of Canada, Advisor Insights, November 2015.
3 The Conference Board of Canada, Boosting Retirement Readiness and the Economy Through Financial Advice, September 2014.

EYEOPENER
Democrat or Republican: Which is better for investors and the economy?

The world's attention has been tirelessly focused on the dramatic U.S. presidential election cycle for the past year. During every presidential election, the question invariably arises: Which party is better for the economy — Democrats or Republicans?

To find out, two Princeton researchers analyzed a 64-year period beginning with President Harry Truman in 1945 and ending with President Obama.[1] Here's what they found:

Party in power	Democrats	Republicans
Average annual gain in S&P 500 Index (USD)	8.35%	2.7%
Average annual GDP growth	4.35%	2.54%
Total rise/fall in unemployment	- 0.80%	+ 1.10%
Total number of quarters of recession	8	49

While economic indicators show superior performance with a Democrat as president, the authors point out that global forces may account for the Democratic edge rather than the policies of the respective governing parties. ■

1 Alan S. Blinder, Mark W. Watson, Woodrow Wilson School and Department of Economics Princeton University, "Presidents and the U.S. Economy: An Econometric Exploration," July 2014.

Defensive investing — is it right for you?

There's an adage in sports that states "defence wins championships." Many investment experts and investors feel the same way about their portfolios.

What is a 'defensive' investment?

A defensive investment is one that generally remains stable throughout all phases of the business cycle. They're also called non-cyclicals. Typically, defensive investments outperform the market during recessions but lag market leaders during economic expansion.

In times when people watch what they spend, what do they really need? Answer that question, and you've got a defensive investment.

Defensive sectors

There are four economic sectors commonly identified as defensive:

- **Utilities.** Because water, gas, and electricity are used at all times by everyone — consumers, businesses, government — the utilities sector is considered defensive.
- **Consumer staples.** Since we all need to do the laundry and brush our teeth, we need to purchase consumer staples regularly and frequently, regardless of the economy.
- **Health Care.** Medicine and medical goods and services are always in demand. In fact, demand has been growing in recent years with an aging population.
- **Telecom.** For decades, consumers have treated Internet and wireless technology as staples, making this a defensive sector.

3 reasons to go defensive

Defensive investments offer some distinct benefits, including these three.

1. Protection from market cycles. Holding equity investments in defensive sectors can help cushion your portfolio when the economy is in a recession. Revenues of companies in defensive sectors typically depend very little, and sometimes not at all, on the health of the economy.

Long-term buy-and-hold investors maintain these holdings to help provide downside protection during market slides, with no need to try to time the market. More aggressive investors may temporarily add defensive holdings at appropriate times during the market cycle.

2. Potential outperformance. Traditionally, diversifying a portfolio with defensive investments has primarily been about reducing overall risk, but past performance shows that investors have also benefited from enhanced returns. Example: for the first quarter of 2016, utilities and consumer staples led the U.S. market, and for the past five years, one or more defensive sectors have finished in the top three.[1]

3. Enhanced stability. In volatile markets, non-cyclicals can help bring a measure of stability to your investment program.

Please contact us if you want to discuss the defensive component in your portfolio, whether as a stabilizing factor, investment opportunity, or both. ■

1 Standard & Poor's, "Sector Returns by Year, 2007 — 2016."

Shares on a downtick? Let's take a closer look

Large, single-day losses can be dramatic — and often headline-grabbing — but they are not necessarily signs of a bad investment.

Context matters

Stock prices move up and down in response to a variety of influences. These can include the company's reported earnings being different from what the markets anticipated, political or management turmoil, extreme weather, scandal, and so on.

On their own, none of these factors are necessarily cause for panic. The market is simply adjusting the price of the company's stock because, at the moment, there are more sellers than buyers.

The upside of a downtick

A downtick is an opportune time for us to review the stock based on the criteria that prompted buying it in the first place: its fundamentals, future prospects, and appropriateness for your portfolio. These factors generally shouldn't be clouded by short-term price swings.

If we determine that the stock is still meeting your needs, it may be worthwhile to add more. After all, with any other product a 15% price drop would be considered a sale and a potential opportunity to acquire more at the lower price.

And if it no longer meets your needs, then yes, it could be time to sell.

If you are concerned about a sudden change in an investment's value, we would be pleased to help you gauge why the price has changed and whether it represents a potential buy or sell opportunity. ■

This newsletter has been written (unless otherwise indicated) and produced by Ariad Communications. MoneyFile provides information on financial planning strategies which include mutual fund investing, insurance, tax, financial and estate planning. The Moneystrat group of companies provide services in each area through the following companies: Moneystrat Securities Inc. – Mutual funds investing and financial planning, Moneystrat Financial Services Inc. – tax planning, Moneystrat Insurance Management Inc. – insurance. © 2016 Ariad Communications. This newsletter is copyright; its reproduction in whole or in part by any means without the written consent of the copyright owner is forbidden. The information and opinions contained in this newsletter are obtained from various sources and believed to be reliable, but their accuracy cannot be guaranteed. Readers are urged to obtain professional advice before acting on the basis of material contained in this newsletter. Readers who no longer wish to receive this newsletter should contact their financial advisor. ISSN 1205-5840