ELAINE'S NEWS & VIEWS

JAN 2016

REMINDERS

Our new address and phone number are at the end of this newsletter. There is just one trick to finding our office. Once you get to the second floor turn right off the elevator. Surprisingly suite 209 is between suites 201 and 202 and that confuses people (and rightfully so). Also, park on the gym side of the mall straight ahead from the driveway, rather than on the Little Caesar's/Baskin Robbins side

TFSA contribution room for this year is $5,500. Call me in Jan about making your 2016 contribution or transferring more unregistered money into your TFSA for more tax sheltering.

The week of Jan 18, I will be away skiing with my family. Brendan Enright who works with me can handle any urgent issues you have in my absence.

The RRSP Contribution deadline is Feb 29, 2016. The maximum new RRSP contribution room was $24,930 for 2015.

You can check on your TFSA contribution room remaining in 2016 by calling the CRA at 1-800-959-8281 or through "My Account", a CRA service at http://www.cra-arc.gc.ca/myaccount/. This website also allows you to track your tax return and check out your CPP credits.

WHAT'S GOING ON IN THE MARKET AND ECONOMY?

If it weren't for 4 technology stocks, apparently the US stock market index (the S&P 500) would have been negative for 2015. The Canadian stock market index, the S&P/TSX 300 was down significantly in 2015. One-third of the largest 60 companies on the stock market lost 20% or more of their value in 2015 by mid-Dec. 5% of the largest 60 lost over 65%. *The Globe and Mail Dec 12, 2015*

Some of our fund managers have recently started buying into the battered resource sector of the market (oil & gas and/or commodities). Luckily almost none of them bought in Sept 2014 when the resource sector first tanked. "investors collectively spent about $24-billion (U.S.) over the past 18 months trying – and failing – to call a bottom in oil. Never in the history of exchange-traded funds has one particular category drawn so much money from investors trying to play a rebound….not all of this money is gone (yet), although certainly a lot of it has evaporated along with the price of crude." *The Globe and Mail Dec 22, 2015* With Canadian oil briefly selling at or below $20/barrel (it usually sells at a significant discount to the price of West Texas Crude), oil prices may be bottoming. Usually that makes enough producers stop pumping oil out of the ground, so that supply weakens and prices rebound. Saudi Arabia doesn't want to lose its market share, so it isn't reducing supply. Russia and ISIS need every dollar they can get, so they are selling all they can. Some U.S. companies would lose drilling rights if they stopped producing oil. And a mild winter isn't helping dry up supply. "The International Energy Agency updated its oil demand forecast, and now predicts a supply glut to last until 2020 – which means oil prices aren't expected to rise to $80 (U.S.) a barrel until then." *The Globe and Mail Nov 12, 2015* I heard on 680 News that Goldman Sachs predicts oil will only rebound to $45/barrel USD next year and to $55 USD in 2017. Many producers need prices to go to $60 just to break even.

The S&P/TSX Venture Composite Index, that has a lot of junior and commodity companies in it, "is down 29 per cent since that start of the year, and a staggering 85 per cent since its peak in 2007. .. The awful performance of the Venture index illustrates just how hopeless market conditions have become for small-cap resource companies. … The higher quality issuers have bottomed as a whole and started to head up. But the zombies are trying to head to their intrinsic value, which is zero." *National Post Dec 15, 2015*. Some of the biggest have fallen 50-85%, reducing their market capitalization by about $1 Trillion. That is why I like my fund managers, with all their research, to pick and choose when and where to invest in the resource sector. Without specialized knowledge, it would be too easy to invest in something that will end up bankrupt.

The U.S. Federal Reserve raised interest rates by .25% in Dec, after keeping interest rates near zero ever since Dec 2008. This small move had significant consequences and great implications. For one thing, high-yield bonds swooned after this small rate rise. The Canadian dollar, which was already dropping as a result of low oil prices, suffered more as a result of short-term, fixed income investors moving money to the U.S. with U.S. interest rates being relatively more attractive than Canadian ones. At the moment, the [capital] loss from a mere 26-basis-point increase in yields [a .26% increase in interest rates] would completely offset income for 10-year Treasury bonds, and any further rise would deliver negative total returns." *RBC Investment Strategy Committee Fall 2015* "Billionaire activist-investor Carl Icahn says 'the meltdown in High Yield [bonds] is just beginning." *The Globe and Mail Dec 12, 2015* And that is why we are NOT invested in bonds or bond funds now, and I don't foresee buying bonds for a long time.

A .25% rise on a $400,000 5 yr fixed rate mortgage could increase your monthly payments by $50/mo. If we see a full per cent rise in the next few years, there are expected to be a lot of people who won't be able to hold onto their homes. *The Globe and Mail Dec 17, 2015*

The good news is that an initial interest rate rise, like the one the U.S. just had, has historically been a signal that the U.S. economy is no more than a third of the way through its bull run (strengthening). "there was never a time when the [economic] cycle was more than halfway through at that point of the first rate increase." *The Globe and Mail Dec 17, 2015* The rate rise was so little and so much later than expected specifically so as not to stop economic progress in the U.S. It has been darn slow, but at least it doesn't look like the U.S. will be heading into a recession anytime soon.

I have read over the years that house prices should be no more than 3 to 4.5 times household income to be affordable. Houses in Regina, Ottawa, and Halifax are all in that range. Hamilton homes seem slightly overpriced at 5.2 times family incomes. Toronto homes are way overpriced at 8.2 times incomes and Vancouver homes are out of sight at 11.2 times incomes. Foreign investors have boosted demand and prices. The worry is just how many Canadians would not be able to carry their mortgages if mortgage interest rates rose. *The Globe and Mail Nov 6, 2015* Luckily, the Bank of Canada is not expected to raise its rates over the next year and another cut in interest rates is even possible. Eventually though the Canadian economy will be strong enough to withstand a rise in rates and then housing prices could fall, especially in the most over-priced areas.

Because the Canadian government is so concerned about the overheating of the housing market, they have increased the amount of minimum down payment that home buyers will have to have on houses selling for more than $500,000. On the portion of the purchase price over $500,000, the minimum down payment will be 10% instead of just 5%. And Canada Mortgage and Housing Corporation (CMHC) announced separately that it will increase the cost of their fees on mortgages with low down payments will rise. So now it makes even more sense to have at least a 20% down payment on a house purchase.

Morgan Stanley predicts that the loonie will drop another 9% next year. We could be back to a $0.65 dollar!

"Investors have been given a gift. A test run like 2015 doesn't come along very often and it shouldn't be wasted. If you don't think you can handle three or four quarterly statements like the one you just receive [in Sept], now is the time to make changes." *Globe and Mail Oct 29, 2015* It seems to me I warned about that in Apr 2015. I don't expect an extended downturn (over a yr) for quite a while, but one never knows. The downside of moving further from pure equity holdings for the long-term is that we could miss quite a bit of up before any downturn, and we might not jump back into the market in time to catch the recovery. I am staying fully invested, but if you think you would worry or lose sleep over volatility like we had in Sept, then call me about making your portfolio more conservative.

The RBC Investment Strategy Committee wrote in their Fall 2015 report that we shouldn't invest based on our fears about geo-political issues. "the rule of thumb for geopolitical matters is that ***a.*** They rarely evolve into an outright crisis; ***b.*** When they do intensify, they rarely have staying power; ***c.*** When they do persist, they rarely have a large impact on the global economy or markets; ***d.*** When they do have a notable impact, the effect is usually reversed later." Except for monies you may be withdrawing an income from in the short-term or are saving for near-term use, it is the long-term that matters. So therefore, worries about geo-political risks shouldn't impact your investments. (Easier said than done.)

"Persistently low yields are driving many investors towards higher-risk assets in search of increased income – what is often referred to as "the yield trap."…"history has shown that these conditions will not persist, setting up a potentially damaging situation for those investors who have fallen to the temptation of "yield at all cost."" *CIBC Renaissance "Essentials" Fall 2014* This is why we avoided Canadian bank and utility exposure last year. People had bought them for the high dividend yield and had overpaid for them. That made those kinds of stocks in Canada vulnerable to a big price correction, which they experienced early in 2015. The recent price drops may have made these stocks less dangerous and we may see some of our fund managers start to buy into Canadian banks now, but very selectively.

As of January, income tax for those earning above $200,000 rises again. Already the 20% of singles who earn the most in Canada pay 67% of all the taxes paid by singles. Now they will subsidize the other 80% even more, especially the 40% who earn the lowest, who collectively pay less than 2.5% of all taxes paid by singles. For households with more than one income earner, the picture is a little better. The top 20% pay 58% of all taxes paid by multi-income households and the bottom 40% pay 7%.

Wishing you all a wonderful 2016!

Elaine

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