



DECEMBER 2017 NEWSLETTER

Market Review

2017 was a good year for Douglas Duncan investors, but an easy year to feel like we underperformed. Speculative investments have had an amazing year, led by bitcoin, up 1,396.4% rising from \$968.23US on Dec. 31, 2016 to \$14,488.95US on Dec. 31, 2017. Marijuana stocks were also on fire, with Canopy Growth Corp. up 225%.

These eye-popping returns have overshadowed the TSX 2017 return of 6.0%, respectable but hardly deserving bragging rights. The S&P 500 return (in Canadian dollars) was a very decent 11.7% giving internationally diversified investors a good year.

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	<u>Dec</u> <u>30/16</u> <u>Close</u>	<u>Sept</u> <u>29/17</u> <u>Close</u>	<u>Dec</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>
S&P 500	2,239	2,519	2,674	6.2%	19.4%
S&P/TSX Composite	15,288	15,635	16,209	3.7%	6.0%

Source: Thomson One

<u>World Markets</u>	<u>YTD</u>
S&P/TSX Composite	6.0%
S&P 500	19.4%
iShares MSCI China ETF	52.2%
iShares S&P/TSX Preferred Index ETF	8.5%
DJ Stoxx 50	6.5%
iShares MSCI Emerging Markets EFT	34.6%
iShares MSCI Japan EFT	22.7%

As of December 29, 2017

Source: Thomson One

Our Top 30 Positions

<u>Position</u>	<u>Investment</u>	<u>Dec</u> <u>30/16</u> <u>Close</u>	<u>Dec</u> <u>29/17</u> <u>Close</u>	<u>Income</u>	<u>Performance</u>
6	WSP Global Inc.	\$ 44.69	\$ 59.91	\$1.50	37.41%
21	Brookfield Infrastructure	\$ 44.92	\$ 56.38	\$2.24	30.49%
7	Brookfield Asset Management Inc.	\$ 44.30	\$ 54.72	\$0.72	25.15%
14	Raymond James Financial Inc.*	\$ 93.03	\$ 112.60	\$1.15	22.27%
30	National Bank of Canada	\$54.53	\$ 62.72	\$2.32	19.27%
26	Enbridge Inc. Preferred FE**	\$ 18.88	\$ 21.06	\$1.10	17.37%
2	Royal Bank of Canada	\$ 90.87	\$ 102.65	\$3.48	16.79%
28	CIBC	\$109.56	\$ 122.54	\$5.14	16.54%
29	Canadian National Railway Co.	\$90.36	\$ 103.65	\$1.65	16.53%
4	Johnson & Johnson*	\$ 154.73	\$ 175.57	\$4.30	16.25%
15	Telus Corporation	\$ 42.75	\$ 47.62	\$1.97	16.00%
13	Brookfield Renewable Energy LP	\$ 39.85	\$ 43.81	\$2.40	15.97%
11	Fortis Inc.	\$ 41.46	\$ 46.11	\$1.63	15.14%
3	Toronto Dominion Bank	\$ 66.22	\$ 73.65	\$2.35	14.77%
27	S&P 500 Trust ETF*	\$300.20	\$335.94	\$4.78	13.50%
10	Manulife Financial Corporation	\$ 23.91	\$ 26.22	\$0.82	13.09%
12	Bank of Nova Scotia	\$ 74.76	\$ 81.12	\$3.10	12.65%
23	BCE Inc. (BELL)	\$ 58.03	\$ 60.38	\$2.87	9.00%
18	Suncor Energy Inc.	\$ 43.90	\$ 46.15	\$1.28	8.04%
19	Bank of Montreal	\$ 96.57	\$ 100.59	\$3.56	7.85%
9	Power Financial Corporation	\$ 33.56	\$ 34.54	\$1.65	7.84%
5	Wells Fargo & Company*	\$ 74.01	\$ 76.24	\$2.01	5.73%
24	Russel Metals 6% 19APR22	\$ 104.18	\$ 103.25	6.00%	4.87%
17	Freehold Royalties Ltd.	\$ 14.17	\$ 14.05	\$0.60	3.39%
25	TD Capital 7.243% 31DEC18	\$ 110.07	\$ 105.02	7.24%	1.99%
8	H&R REIT	\$ 22.37	\$ 21.36	\$1.38	1.65%
1	Manulife Premium Savings Account	\$10.00	\$ 10.00	1.10%	1.10%
16	RBC Investment Savings Account	\$ 10.00	\$ 10.00	0.95%	0.95%
20	B2B Bank High Interest Savings	\$1.00	\$ 1.00	0.80%	0.80%
22	Riocan REIT	\$ 26.63	\$ 24.36	\$1.41	-3.23%

*Performance in Canadian dollars Dec 30/16 \$0.7446, Dec. 29/17 \$0.7958

Source: Thomson One

In spite of not owning the speculative ‘flavours of the day,’ the Douglas Duncan Wealth Management team had another year of good results. The Canadian banks had a good year; the Brookfield companies performed well, and in spite of fears of rising interest rates Fortis and Telus produced very attractive results.

Our 19th largest position in 2016, Riocan Preferred Series C was called in 2017 at 100 cents on the dollar, eliminating that position. We sold our 8th largest position, Home Trust high interest savings account when that company had regulatory problems mid-year. CIBC, National Bank, and CN Rail made the 2018 top 30 list mainly due to price appreciation.

Of our new positions, Google has increased 24.3% from our March 31, 2017 newsletter recommendation at \$847.80, and Facebook has increased 16.9% from our June 30, 2017 newsletter recommendation at \$150.98. These are currently our 59th and 68th largest positions.

Canadian T-Bills and Bonds Yields

	<u>June 30, 2017</u>	<u>Sept. 29, 2017</u>	<u>Dec. 29, 2017</u>
90-day	0.72%	1.01%	1.06%
180-day	0.83%	1.13%	1.24%
1-year	0.97%	1.38%	1.54%
2-year	1.094%	1.513%	1.681%
5-year	1.378%	1.749%	1.861%
10-year	1.750%	2.096%	2.039%
30-year	2.129%	2.471%	2.262%

Source: Thomson One

International 10-Year Bond Yields

	<u>June 30, 2017</u>	<u>Sept. 29, 2017</u>	<u>Dec. 29, 2017</u>
Japan	0.07%	0.05%	0.04%
U.S.	2.30%	2.33%	2.41%
Germany	0.46%	2.83%	0.42%
Canada	1.75%	2.10%	2.04%
U.K.	1.25%	1.36%	1.19%
France	0.81%	0.74%	0.77%
Spain	1.51%	1.59%	1.55%
Italy	2.14%	2.10%	2.00%
Portugal	3.00%	2.34%	1.87%
India	6.51%	6.66%	7.32%

Source: Bloomberg.com

During the last quarter the bond market has been ‘out of synch’ with both the real estate and equity markets. Longer term bond rates have fallen slightly, indicating slowing economic growth, and real estate and equities are rising, indicating improving economic growth. We are watching the bond market very carefully for signs of future stock market expectations.

Marijuana Stocks

Marijuana has had well known recreational properties for years, particularly on Vancouver Island, and perhaps lesser known medicinal properties. While we are not of the belief that marijuana is the cure for everything, we know a number of ‘straight arrow’ individuals who consider marijuana use to be a life saver due to various medical ailments.

Not surprisingly many governments have looked to the marijuana industry as a source of revenue, opening the way for legal providers.

Any investor who participated in marijuana stocks in the last few years has had an excellent experience. There may still be an excellent future in this industry but there continues to be regulatory risk and the valuations are too expensive to fit into our pool of investment choices. Comparable valuations are below:

<u>Security</u>	<u>Symbol</u>	<u>Market Cap</u>	<u>2017 Sales</u>	<u>Market Cap/Sales</u>
Canopy Growth Corp.	WEED	\$3,815 (million)	\$39 (million)	95.6
Aurora Cannabis	ACB	\$2,922	\$18	162.3
Aphria Inc.	APH	\$2,296	\$8.43	272.3
Constellation Brands	STZ	\$42,994	\$7,331	5.86
Molson Coors	TAP	\$15,856	\$4,885	3.24

Source: Thomson One

While the three marijuana stocks have higher growth rates than Constellation Brands (wine, beer, and spirits) and Molson Coors, the valuations are off the charts and are considered high risk. In addition, there are concerns about any company with ties to the U.S. due to their uncertain legal environment regarding marijuana sales.

Bitcoin

I think that Vancouver billionaire Jimmy Pattison said it best:

We can get into enough trouble investing in things that we think we understand without investing in things we don't understand.

Bank of Canada governor Stephen Poloz explained online currencies as follows:

Cryptocurrencies aren't reliable stores of value, nor can they be easily spent. What their true value is may be anyone's guess – perhaps the most one can say is that buying these things means buying risk, which makes it closer to gambling than investing.

Our view is that the bitcoin and cryptocurrency craze is an indicator of the investing public's current appetite to speculate. Like many speculative frenzies on intangible assets it will not likely end well. We'll see...

Outlook for 2018

The world economy is currently growing at a rate of 3.6%, with the advanced economies growing at 2.2% and emerging economies growing at 4.6% (source: International Monetary Fund).

These growth rates combined with low inflation provide fuel for good market performance. Also, the current low interest rates provide little competition to risk assets.

On a more cautionary note, we have a flattening yield curve indicating tempered future economic growth, high Canadian household debt, rising U.S. short term interest rates, speculative excesses in some market sectors, and are many years from the last recession.

For this reason we want to focus on the highest quality non-speculative assets and have a cash reserve on the sidelines for the next buying opportunity.

Activities for First Quarter 2018

T4RSP, T4RIF, T4A (RESP), T5008, T5 and *Summary of Investment Income* tax receipts should be mailed to you on February 28, 2018. T3 and T5013 tax receipts should be mailed by March 31, 2018. Please note, all T5 and T3 tax receipts for mutual fund investment income are issued directly by the fund companies, not by Raymond James Ltd.

If you would like a capital gain/loss report for the year please call. Unless you request otherwise we will report U.S. capital gains or losses in Canadian dollar terms to simplify your tax returns.

The first thing we will be doing in 2018 is calling everyone for review and to discuss your TFSA and/or RRSP contributions. The TFSA contribution limit for 2018 is \$5,500.00 and the deadline for RRSP contributions is Thursday, March 1, 2018.

We wish you all the best in the New Year!

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. Just call our office at 250-729-2830 and we'll take it from there. Thanks!



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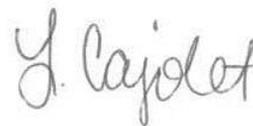
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