RAYMOND JAMES | DOUGLAS DUNCAN wealth management

JUNE 2019 NEWSLETTER

Market Review

The S&P/TSX is up 14.4% and the S&P 500 is up 18.5% in 2019, but due to the correction in the last quarter of 2018, the one year returns have been 8.24% and 6.39%. While these aren't spectacular, it is clear that the best asset class to be in has been equities, with GICs, bonds, and daily interest accounts providing security but little return. The best returns have been in the technology sector and North American equities, while Europe and emerging markets have continued to lag.

	Jun 30/18 Close	Mar 29/19 Close	Jun 28/19 Close	90-Day % Change	1-Year % Change
S&P 500	2,718	2,834	2,942	3.81%	8.24%
S&P/TSX Composite	16,278	16,102	16,382	1.74%	6.39%

Source: Thomson One

World Markets	YTD
S&P/TSX Composite	**14.4%**
S&P 500	**18.5%**
NASDAQ	**20.7%**
Dow Jones	**14.0%**
Russel 2000	**16.2%**
iShares S&P/TSX Preferred Index ETF	**-3.43%**
DJ Stoxx 50	**15.8%**
FTSE 100	**10.4%**
HANG SENG	**10.4%**

As of June 28, 2019 Source: Thomson One

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Canadian T-Bills and Bonds Yields

	Dec. 31, 2018	Mar. 29, 2019	June 28, 2019
90-day	**1.70%**	**1.67%**	**1.67%**
180-day	**1.81%**	**1.67%**	**1.69%**
1-year	**1.91%**	**1.69%**	**1.69%**
2-year	**1.862%**	**1.550%**	**1.475%**
5-year	**1.887%**	**1.520%**	**1.397%**
10-year	**1.967%**	**1.620%**	**1.467%**
30-year	**2.184%**	**1.894%**	**1.685%**

Source: Thomson One

International 10-Year Bond Yields

	Dec. 31, 2018	Mar. 29, 2019	June 28, 2019
Japan	**-0.01%**	**-0.10%**	**-0.17%**
U.S.	**2.68%**	**2.41%**	**2.01%**
Germany	**0.24%**	**-0.07%**	**-0.33%**
Canada	**1.97%**	**1.62%**	**1.47%**
U.K.	**1.27%**	**0.99%**	**0.83%**
France	**0.70%**	**0.31%**	**-0.01%**
Spain	**1.41%**	**1.09%**	**0.39%**
Italy	**2.74%**	**2.49%**	**2.20%**
Portugal	**1.71%**	**1.24%**	**0.47%**
India	**7.36%**	**7.35%**	**6.88%**

Source: Bloomberg.com

As fears of an economic slowdown, caused by the disruption of world trade, have continued to dominate the headlines, interest rates have continued to fall from the September 2018 highs. Japan, Germany, and France all have negative 10-year bond yields. It continues to amaze us why someone would commit capital for 10 years at a negative rate. Even Italy with its populist government and federal debt of 132.2% of GDP (compared to Canada at 31% of GDP) can sell 10-year government bonds at 2.2%, hardly an attractive risk/reward trade-off. While there may be investors who see value in bond investing, we can't see a positive result from investing in government bonds at this time.

Flash In The Pan?

On April 22, Beyond Meat priced its IPO at $25.00, at the top of the expected range. Beyond Meat produces a meatless burger which appeals to vegetarians, as well as people who have concerns about the impact of beef production on the environment. Ian's market research, based on one burger, is that the Beyond Meat product is the least unpleasant veggie burger he has tasted.

Beyond Meat started trading at $45.00; almost double the IPO price and the stock shot up to $201.88 before closing the quarter at $160.68.

Beyond Meat (BYND-US) 3-Month Chart

Source: bigcharts.com

The obvious question is, "Why don't we call you on these up-and-comers?"

The reason is many of these "flavour of the month" stocks end in misery. In July of 2018, the Nanaimo marijuana producer, Tilray, had its IPO at $17.00, opened trading at $20.10 and peaked at $300.00 on September 19. The stock is currently at $46.56, still profitable for early investors, but down 84.4% for investors who purchased in the September 2018 frenzy.

Tilray Inc. (TLRY-US) 1-Year Chart

Source: bigcharts.com

In 2013 and 2014, there was a lot of media and investor interest in 3-D printing, and 3-D Systems Corp appreciated from $5.00 in September 2010 to $95.40 in December of 2013. The company has yet to turn a profit and the stock is currently $9.10, down 90.5% from its high. While 3-D printing has become a legitimate industry, the hype has left the stock prices. We do everything we can to avoid these losses and that means not participating in the "hot" stocks of the day.

3-D Systems Corp (DDD-US) 10-Year Chart

Source: bigcharts.com

Preferred Shares

One sector that looks attractively priced now is Reset Preferred Shares.

We have been adding a number of these recently as the group has reacted poorly to falling interest rates. One example is Fortis Reset Preferred G.

This preferred share was first issued in 2008 with an original coupon of 5.25% but reset so the current dividend would pay 4.39% based on the original $25.00 price. However, at the current price of $17.73, the shares pay 6.19% until September 1, 2023. At that time, the dividend will be adjusted based on the 5-year Canada bond yield at that time.

Fortis Series G Preferred (FTS.G) 1-Year Chart

Source: bigcharts.com

These shares will benefit from rising rates and will be penalized if rates go lower, so investors should know the reset details before purchasing. While clearly more volatile than bonds of the same credit rating, they at least pay a reasonable yield and have a place in moderate risk portfolios.

Dividend Increases

Position	Investment	Q1 2019 Dividend	Q2 2019 Dividend	Increase
27	Bank of America Corp.	0.15	0.18	20.00%
15	JPMorgan Chase & Co.	0.80	0.90	12.50%
23	TC Energy Corp.	0.69	0.75	8.70%
4	Johnson & Johnson	0.90	0.95	5.56%
12	Telus Corporation	0.545	0.5625	3.21%
20	Bank of Montreal	1.00	1.03	3.00%

Of our largest 30 positions seven are bonds and daily interest accounts. Of our 23 largest equity positions six increased their dividends this quarter. We had no dividend decreases. During this extended period of low interest rates dividend paying stocks seem to have the best risk/reward for most investors.

Summary

As we enter the summer we will continue to collect dividends from our core positions, keep a buying reserve in daily interest accounts, and strategically invest in opportunities that present themselves. If you have any questions regarding your portfolio, please call our office.

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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