



## DECEMBER 2016 NEWSLETTER

### Market Review

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2016 was a good year for many equity investors, with Canada outperforming most developed markets. Canada's materials sector (gold, mines, forestry, and fertilizer) was up 39% for the year, and the oil and gas sector was up 37.3%. The year started out very poorly, with the TSX down 11.36% between December 31, 2015 and January 20, 2016. However the TSX is up 32.6% since the year low, giving investors lots of reasons to be pleased.

	<u>Dec</u> <u>31/15</u> <u>Close</u>	<u>Sept</u> <u>30/16</u> <u>Close</u>	<u>Dec</u> <u>30/16</u> <u>Close</u>	<u>90-Day</u> <u>%</u> <u>Change</u>	<u>1-Year</u> <u>%</u> <u>Change</u>
<b>S&amp;P 500</b>	2,043	2,168	2,239	3.27%	9.59%
<b>S&amp;P/TSX Composite</b>	13,010	14,726	15,288	3.82%	17.5%

Source: Thomson One

<u>World Markets</u>	<u>YTD</u>
S&P/TSX Composite	17.5%
S&P 500	9.59%
iShares MSCI China ETF	-2.00%
iShares S&P/TSX Preferred Index ETF	1.77%
DJ Stoxx 50	0.70%
iShares MSCI Emerging Markets EFT	8.76%
iShares MSCI Japan EFT	0.78%

*As of December 30, 2016*

Source: Thompson One

## Our Top 30 Positions

<u>Position</u>	<u>Investment</u>	<u>Dec 31/15 Close</u>	<u>Dec 30/16 Close</u>	<u>Income</u>	<u>Performance</u>
14	Bank of Nova Scotia	\$ 55.97	\$ 74.76	\$2.89	38.74%
16	Freehold Royalties Ltd.	\$ 10.76	\$ 14.17	\$0.57	37.00%
23	Brookfield Infrastructure	\$ 34.92	\$ 44.92	\$2.78	36.60%
20	Bank of Montreal	\$ 78.08	\$ 96.57	\$3.40	28.04%
2	Royal Bank of Canada	\$ 74.15	\$ 90.87	\$3.24	26.92%
15	Suncor Energy Inc.	\$ 35.72	\$ 43.90	\$1.16	26.15%
3	Toronto Dominion Bank	\$ 54.24	\$ 66.22	\$2.16	26.07%
21	Riocan REIT	\$ 23.69	\$ 26.63	\$1.41	18.36%
6	H&R REIT	\$ 20.05	\$ 22.37	\$1.35	18.30%
13	Raymond James Financial Inc.*	\$ 80.28	\$ 93.03	\$1.07	17.21%
9	Manulife Financial Corporation	\$ 21.17	\$ 23.91	\$0.74	16.44%
17	Telus Corporation	\$ 38.26	\$ 42.75	\$1.80	16.44%
11	Brookfield Renewable Energy LP	\$ 36.27	\$ 39.85	\$2.33	16.29%
19	Riocan REIT Preferred C	\$ 22.50	\$ 24.97	\$1.18	16.22%
18	Fortis Inc.	\$ 37.41	\$ 41.46	\$1.53	14.92%
27	Enbridge Inc. Preferred FE**	\$ 17.39	\$ 18.88	\$1.10	14.89%
26	BCE Inc. (BELL)	\$ 53.46	\$ 58.03	\$2.70	13.60%
25	Russel Metals 6% 19APR22	\$ 97.00	\$ 104.18	6.18%	13.58%
5	Johnson & Johnson*	\$ 142.25	\$154.73	\$4.11	11.66%
7	Power Financial Corporation	\$ 31.81	\$ 33.56	\$1.55	10.37%
10	WSP Global Inc.	\$ 42.51	\$ 44.69	\$1.50	8.66%
28	S&P 500 Trust ETF*	\$ 282.32	\$ 300.20	\$5.86	8.41%
12	Brookfield Asset Management Inc.	\$ 43.65	\$ 44.30	\$0.68	3.05%
24	TD Capital 7.243% 31DEC18	\$ 114.02	\$ 110.07	6.35%	2.89%
4	Wells Fargo & Company*	\$ 75.28	\$ 74.01	\$2.00	0.97%
1	Manulife Premium Savings Account	\$ 10.00	\$10.00	0.90%	0.90%
8	Home Trust High Interest Savings	\$ 1.00	\$1.00	0.90%	0.90%
30	Equitable Bank High Interest Savings Account	\$ 1.00	\$1.00	0.90%	0.90%
22	B2B Bank High Interest Savings	\$ 1.00	\$1.00	0.80%	0.80%
29	RBC Investment Savings Account	\$ 10.00	\$10.00	0.75%	0.75%

\*Performance in Canadian dollars Dec 31/15 \$0.7221, Dec 30/16 \$0.7446

Source: Thomson One

\*\*Average Client Cost, purchases mid 2016

The stock market elves shone on the Douglas Duncan Wealth Management team this year with all of our largest 30 positions having positive returns for 2016. With our best performer, Bank of Nova Scotia (BNS) up 38.74% and our worst performer, RBC Investment Savings Account up 0.75%, we have been going to bed each night with sugar plums dancing in our heads. Our five lowest performers were high interest savings accounts. While

they earn less than stellar returns, most investors need some guaranteed capital in case of a market correction or personal cash needs.

Two of our largest 30 positions of 2015, Vermillion Energy 6.5% 10Feb2016 bonds and Shaw Communications 6.15% 09May2016 bonds, matured and investors were paid the principle and interest. Additions to our top 30 positions are Manulife Financial Corp. (MFC) and Freehold Royalties (FRU), which made it into the top 30 partly due to new purchases, but primarily due to price appreciation. The Enbridge series 13 preferred shares (ENB.PF.E) have become a top 30 position mostly from 2016 mid-year purchases.

Most of the positions that we added in 2016 were purchased in anticipation of rising interest rates (banks, insurance companies, and preferred shares) or in anticipation of rising oil prices (mostly Suncor and Freehold Royalties). Fortunately both of these bets paid off with terrific price appreciation.

Due to our strategy of not investing in 'long shots', we missed the 403% gain of Teck Resources, and the 208% gain of Canopy Growth Corp., a marijuana stock. However, this strategy helped us avoid the big losers, including Blackberry, down 28%, and the two Canadian drug stocks, Valeant Pharmaceuticals and Concordia International, down 86% and 95% respectively.

### Canadian T-Bills and Bonds Yields

	<u>June 30, 2016</u>	<u>Sept. 30, 2016</u>	<u>Dec. 30, 2016</u>
90-day	0.49%	0.50%	0.47%
180-day	0.51%	0.52%	0.57%
1-year	0.52%	0.53%	0.64%
2-year	0.521%	0.516%	0.747%
5-year	0.573%	0.611%	1.116%
10-year	1.064%	0.993%	1.721%
30-year	1.716%	1.657%	2.313%

Source: Thomson One

### International 10-Year Bond Yields

	<u>June 30, 2016</u>	<u>Sept. 30, 2016</u>	<u>Dec. 30, 2016</u>
Japan	-0.23%	-0.10%	0.04%
U.S.	1.47%	1.59%	2.44%
Germany	-0.13%	-0.12%	0.20%
Canada	1.06%	0.99%	1.72%
U.K.	0.86%	0.74%	1.23%
France	0.18%	0.18%	0.68%
Spain	1.16%	0.88%	1.38%
Italy	1.25%	1.18%	1.81%
Portugal	2.97%	3.30%	3.73%
India	7.45%	6.81%	6.51%

Source: Bloomberg.com

Interest rates have increased sharply since the bottom in July, on expectations of more inflation.

## Gold

From the beginning of human history, empires have expanded and contracted, often at the point of a spear or gun. For those on the losing side, this often meant losing their homes, farms, businesses and other assets as they fled to safety. During times of conflict gold and gems acted as insurance, allowing people to store wealth in a portable way. Their farm might be confiscated, but a small bar of gold hidden in a rucksack or some diamonds sewn into a coat provided a family a fresh start in another country.

Sadly we have not evolved past state confiscation of assets and tribal conquest, and refugees continue to move around the globe in search of a more secure future. What has changed is that with the electronic transfer of funds, nervous citizens of unstable countries can move assets offshore without resorting to gold bars and gems. For this reason I believe that gold will continue to be a poor investment over the long term. Below is a chart indicating the appreciation of various assets since May of 1980 when I graduated from university. Not only did gold underperform the TSX, the S&P 500, and most real estate markets, but it provided no income to the holder.

<u>Asset</u>	<u>May 31, 1980</u> <u>Price</u>	<u>Dec. 30, 2016</u> <u>Price</u>	<u>%</u> <u>Appreciation</u>
<b>Gold per ounce</b>	\$535.50	\$1141.90	<b>113%</b>
<b>Nanaimo Detached Home*</b>	\$71,944	\$433,700	<b>503%</b>
<b>S&amp;P 500</b>	328	2,250	<b>586%</b>
<b>S&amp;P/TSX Composite Index</b>	1,972	15,348	<b>678%</b>
<b>Greater Vancouver Detached Home</b>	\$99,200	\$1,511,100	<b>1,423%</b>

Source: usagold.com, Vancouver Island Real Estate Board (\*average house price in 1982), Thomson One, Real Estate Board of Greater Vancouver

Note that the best appreciation came from Greater Vancouver real estate, currently being used by Chinese nationals as an ‘insurance policy’ in case of political or economic turmoil in China.

If you have a gold bullion position you should consider replacing it with dividend paying stocks. Not only will you increase your income, but you will likely earn a higher overall return over time.

## Outlook for 2017

We are currently enjoying a very strong rally in economy sensitive companies, those benefiting from faster economic growth, higher interest rates, infrastructure spending, and dialed back regulation. For the time being this rally is very strong and we should make sure we have exposure to these sectors.

President-elect Trump’s cabinet includes business people and CEOs expected to streamline regulations and improve the economic climate in the U.S. Unfortunately it also includes anti-trade protectionists and other unsavory characters that could reap havoc on the world economy. At this point we don’t know which group will shape U.S. policy.

In early 2016, I would have never predicted that a U.S. presidential candidate who insulted women, disabled people, Latinos, African-Americans, Muslims, families of deceased American soldiers and American POWs would be elected as the next U.S. president, so we must always recognize our limitations on predicting the future.

Fortunately the strategy of managing a portfolio of high quality income producing securities continues to be an effective way to earn a decent return over the long haul. We will be sticking with that strategy.

## Activities for First Quarter 2017

T5 and Summary of Investment Income tax receipts should be mailed to you on February 28, 2017, and T3 and T5013 tax receipts should be mailed by March 31, 2017. 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 2017 is calling everyone for review and to discuss your TFSA and/or RRSP contributions. The TFSA contribution limit for 2017 is \$5,500.00 and the deadline for RRSP contributions is Wednesday, March 1, 2017.

We wish you all the best in the New Year!

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*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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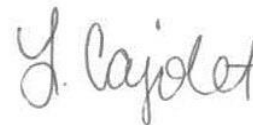
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