



MARCH 2018 NEWSLETTER

Market Review

2018 has been volatile for investors, as markets have been buffeted by rising interest rates, protectionist threats from the US, and general chaos in the White House. President Trump has been replacing the grown-ups in his cabinet with weaker and more extreme candidates, and this has dampened investor confidence in the economy.

In Canada our economy and market has underperformed for a number of reasons. Over the last 10 years, since the peak of the Canadian stock market in 2008, the performance of the S&P/TSX index has been 105 out of 106 world markets. Venezuela was 106 (source: Bloomberg).

Fortunately international diversification and focused stock and sector selection has allowed Douglas Duncan clients to greatly outperform the Canadian market over this period. We will continue to recommend investments where we see the most attractive risk/reward.

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	<u>Mar</u> <u>31/17</u> <u>Close</u>	<u>Dec</u> <u>29/17</u> <u>Close</u>	<u>Mar</u> <u>29/18</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	2,363	2,674	2,641	-1.23%	11.8%
S&P/TSX Composite	15,548	16,209	15,367	-5.19%	-1.16%

Source: Thomson One

<u>World Markets</u>	<u>YTD</u>
S&P/TSX Composite	-5.19%
S&P 500	-1.23%
iShares MSCI China ETF	3.05%
iShares S&P/TSX Preferred Index ETF	-1.46%
DJ Stoxx 50	-4.05%
iShares MSCI Emerging Markets EFT	0.56%
iShares MSCI Japan EFT	1.25%

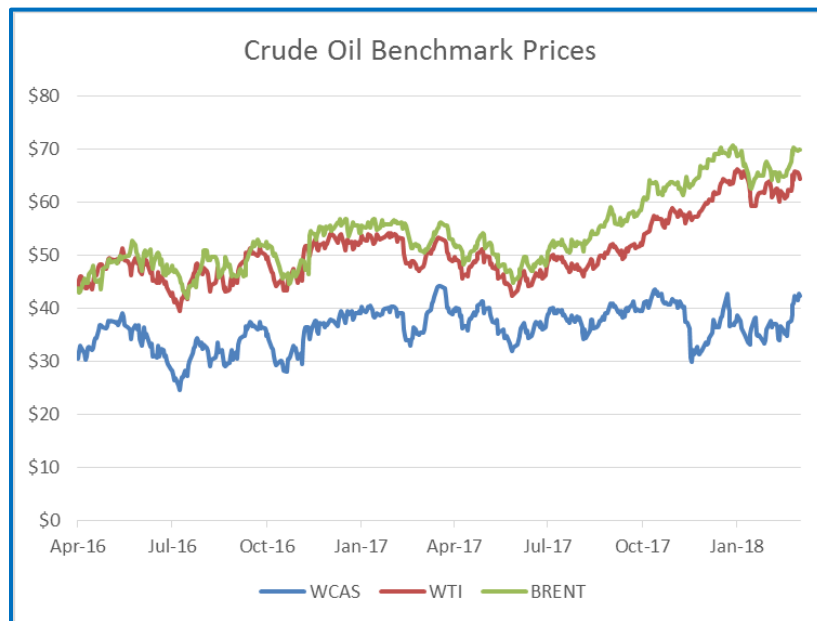
As of March 29, 2018

Source: Thomson One

Canada's Oil Market

The price of West Texas Crude oil bottomed at \$27.24 US in January 2016, and has since recovered to \$64.92 US, a 138% increase from the bottom. The Canadian oil and gas index bottomed at \$125.84 in January 2016, but has only recovered to \$172.38, a 41% increase from the bottom.

The culprit for this lack of profitability is the lack of pipeline capacity to move oil and gas from BC, Alberta and Saskatchewan to Eastern Canada and off-shore markets. Year to date Eastern Canada has been importing oil at the Brent price averaging \$67.06 US, while Western Canada sells oil to the US at the Western Canadian Select price that has averaged \$46.46 CDN, approximately \$36.15 US (source: Petroleum Services Association of Canada). This \$30 per barrel discount costs the Canadian economy approximately \$15.6 billion per year, or \$2,080.00 per year for a family of four according to Scotiabank's chief-economist, Jean-Francois Perrault.



Source: Bloomberg.com

All Canadian citizens may not feel the impact of this economic dampener, as most provincial governments and the federal government have absorbed their revenue shortfall by increasing taxes and running deficits. Job losses have been mostly concentrated on Albertans, oil workers and tradespeople.

Should we get extra pipeline capacity, the discount is expected to shrink from \$30 per barrel to perhaps \$10 per barrel. This would be a shot in the arm for the economies of Western Canada. If you don't think that any Canadian pipelines will get built in the future, it is likely that most Canadian oil and gas companies will underperform (with the possible exception of Suncor, which has its own refineries). If you feel that Line 3, Keystone XL, or the TransMountain pipelines will be completed in the near future, the current prices of Canadian oil companies represent very good value. Due to the risks we would recommend that investors stick with the most solid and well capitalized companies, including Suncor, Canadian Natural Resources, and Freehold Royalties.

Canadian T-Bills and Bonds Yields

	<u>Sept. 29, 2017</u>	<u>Dec. 29, 2017</u>	<u>Mar. 29, 2018</u>
90-day	1.01%	1.06%	1.11%
180-day	1.13%	1.24%	1.32%
1-year	1.38%	1.54%	1.60%
2-year	1.513%	1.681%	1.769%
5-year	1.749%	1.861%	1.961%
10-year	2.096%	2.039%	2.086%
30-year	2.471%	2.262%	2.225%

Source: Thomson One

International 10-Year Bond Yields

	<u>Sept. 29, 2017</u>	<u>Dec. 29, 2017</u>	<u>Mar. 29, 2018</u>
Japan	0.05%	0.04%	0.03%
U.S.	2.33%	2.41%	2.74%
Germany	2.83%	0.42%	0.49%
Canada	2.10%	2.04%	2.09%
U.K.	1.36%	1.19%	1.35%
France	0.74%	0.77%	0.71%
Spain	1.59%	1.55%	1.15%
Italy	2.10%	2.00%	1.78%
Portugal	2.34%	1.87%	1.58%
India	6.66%	7.32%	7.39%

Source: Bloomberg.com

Canadian bond yields rose over this quarter, but short term yields rose more than long term yields. This would indicate that the Canadian economy is likely to slow down over the next year or two so this flattish yield curve is a signal to us that we shouldn't be 'sticking our necks out.'

The US long bond rates have risen much more. This is likely due to reduced US regulations improving their economy and a very simulative \$1 trillion deficit.

Trouble in Paradise

As mentioned in our last newsletter, 2017 was a terrific year for investors with higher risk profiles. After amazing results last year, bitcoin and marijuana stocks have been experiencing much greater volatility.

<u>Security</u>	<u>Dec. 29, 2017</u>	<u>Mar. 29, 2018</u>	<u>% gain (loss)</u>
Bitcoin (US\$)	\$14,613	\$7,260	(50.3%)
Canopy Growth Corp.	\$29.70	\$33.66	13.3%

Canopy Growth is up year to date but it has seen a high of \$44.00 and a low of \$20.85 in the first three months of 2018, experiencing a lot of volatility. We would avoid cryptocurrencies like the plague and consider marijuana stocks to be high risk due to their expensive valuations.

Yield Opportunities

There are currently no zero risk options in Canada to earn returns above the rate of inflation. However due to the recent pullback there are opportunities to earn reasonable yields with moderate risk. The following holdings are high quality companies that have decent yields at today's prices.

<u>Investment</u>	<u>52 Week High</u>	<u>Mar. 29, 2018 Price</u>	<u>Dividend</u>	<u>Yield</u>
H&R REIT	\$ 23.53	\$ 20.78	\$ 1.38	6.64%
Brookfield Property Partners	\$ 31.31	\$ 24.73	\$ 1.62	6.56%
Brookfield Renewable Power**	\$ 45.47	\$ 40.35	\$ 2.52	6.25%
RioCan REIT	\$ 26.67	\$ 23.51	\$ 1.44	6.13%
BCE Inc. (Bell Media)	\$ 63.00	\$ 55.42	\$ 3.02	5.45%
Power Financial Corp.	\$ 37.00	\$ 32.30	\$ 1.73	5.36%
TransCanada Pipeline	\$ 65.18	\$ 52.15	\$ 2.71	5.20%
Brookfield Infrastructure**	\$ 59.28	\$ 53.00	\$ 2.42	4.57%
Telus Corp.	\$ 48.94	\$ 44.99	\$ 2.02	4.49%
Bank of Nova Scotia	\$ 85.50	\$ 78.85	\$ 3.28	4.16%
Fortis	\$ 48.73	\$ 43.55	\$ 1.70	3.90%
Royal Bank of Canada	\$ 108.52	\$ 99.52	\$ 3.78	3.80%
Manulife Financial Corp.**	\$ 27.77	\$ 23.78	\$ 0.88	3.70%
TD Bank**	\$ 76.65	\$ 72.95	\$ 2.68	3.67%
Suncor**	\$ 47.69	\$ 44.45	\$ 1.44	3.24%
10-Year Canada Bond (March 29)			2.09%	2.09%
2-Year Canada Bond (March 29)			1.77%	1.77%

***Raymond James Ltd. has managed or co-managed a public offering of securities within the last 12 months with respect to the subject company. Raymond James Ltd. has provided investment banking services within the last 12 months with respect to the subject company*
Source: Thomson One

While these companies carry market price risk as well as their own unique risks associated with their businesses, they have tolerable risk for most investors when owned in an appropriately balanced and diversified portfolio.

There are many TSX companies with larger recent declines and higher dividends but we have not included them in this chart as some have problems with their balance sheets or business models, and others have potentially unsustainable payout ratios.

Dividends over the last 12 Months

While most stocks have corrected in the last few months, we are very fortunate that of our top 30 positions, we had many dividend increases without any dividend reductions over the last 12 months. In addition a number of our daily interest accounts increased their yields. The good news is that in spite of the inevitable market volatility, investors enjoyed income increases over the last year.

<u>Position</u>	<u>Investment</u>	<u>2017 Dividend</u>	<u>Current Dividend</u>	<u>Increase</u>
22	Bank of America Corp.*	0.075	0.12	60.00%
25	USD RBC Investment Savings Account	0.45%	0.70%	55.56%
20	B2B Bank High Interest Account	0.80%	1.15%	43.75%
1	Manulife Bank Premium ISA	0.95%	1.25%	31.58%
15	RBC Investment Savings Account	0.85%	1.10%	29.41%
14	Raymond James Financial Inc.*	0.22	0.25	13.64%
17	Suncor Energy Inc.**	0.32	0.36	12.50%
16	JPMorgan Chase & Co.*	0.50	0.56	12.00%
3	Toronto Dominion Bank**	0.60	0.67	11.67%
2	Royal Bank of Canada	0.87	0.94	8.05%
23	Brookfield Infrastructure* **	0.435	0.47	8.05%
11	Bank of Nova Scotia	0.76	0.82	7.89%
10	Manulife Financial Corporation**	0.205	0.22	7.32%
7	Brookfield Asset Management Inc.* **	0.14	0.15	7.14%
8	Fortis Inc.	0.40	0.425	6.25%
19	Bank of Montreal**	0.88	0.93	5.68%
24	BCE Inc. (BELL)	0.7175	0.755	5.23%
12	Telus Corporation	0.48	0.505	5.21%
18	Freehold Royalties Ltd.	0.05	0.0525	5.00%
4	Johnson & Johnson*	0.80	0.84	5.00%
9	Power Financial Corporation	0.4125	0.433	4.97%
13	Brookfield Renewable Energy LP* **	0.4675	0.49	4.81%
21	Wells Fargo & Co.*	0.38	0.39	2.63%
27	RioCan REIT	0.1175	0.12	2.13%
5	WSP Global Inc.	0.375	0.375	0.00%
6	H&R REIT	0.115	0.115	0.00%
26	Russell Metals 6% 19APR22 Bond	6.00%	6.00%	0.00%
28	TD Cap III 7.243% 31DEC18 Bond	7.24%	7.24%	0.00%
29	Enbridge Inc. Series FE Preferred	0.275	0.275	0.00%
30	Cash	0%	0%	0.00%

*Dividends are in US dollars.

Source: Thomson One

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Summary

We have recently experienced some market volatility and can likely expect more volatility in the near future but we will continue to search for opportunities as they become available.

If you have any questions, please call.

Client Appreciation Event / Open House

Mark your calendars for Wednesday, June 13! This year we are hosting our annual client appreciation at the Nanaimo Golf Club from 4:00 pm to 8:00 pm. Very talented musicians, Bill and Donna Konsorodo, will be returning to play music. Look out for your mailed invitation at the beginning of May.

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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