MARKET COMMENTARY

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"Realists Buy from Pessimists and Sell to Optimists" - Benjamin Graham

Mr. Graham is an icon of value investing and his book *The Intelligent Investor* is required reading in most University Finance Curriculums, 67 years after it was written.

> *Graham's favorite allegory is that of Mr. Market, an obliging fellow who turns up every day at the shareholders' door offering to buy or sell his shares at a different price. Often, the price quoted by Mr. Market seems plausible, but sometimes it is ridiculous. The investor is free to either agree with his quoted price and trade with him, or ignore him completely. Mr. Market doesn't mind this and will be back the following day to quote another price.*
>
> *The point of this anecdote is that the investor should not regard the whims of Mr. Market as a determining factor in the value of the shares the investor owns. He should profit from market folly rather than participate in it. The investor is advised to concentrate on the real life performance of his companies and receiving dividends rather than be too concerned with Mr. Market's often irrational behavior. - Wikipedia*

Why are the stock markets down?

The third week in January represented the peak in market pessimism and proved to be a springboard for a quick recovery in valuations. Better-than-expected year-end earnings reports, coupled with a less aggressive interest rate policy by the U.S. Federal Reserve Bank, reinforced the market recovery. In the U.S. a weaker U.S. dollar also supported commodity pricing, providing a further push upward to our Canadian share prices. The volatility during this type of market plays right into the irrational behavior Mr. Market can use to his advantage. Avoiding short-term reactions to this type of volatile market activity and staying committed to a high quality value portfolio are keys to long-term success with our portfolios.

Mr. Market will provide us some value opportunities as uncertainty returns and our patience will be rewarded.

A good example of a growth company that continues to outperform the market is AGT Food Ingredients. Still considered a high risk category investment due to its size, it is quickly growing to a size that may qualify it as medium risk. This company from Regina, Saskatchewan, is a processor of pulse crops, and produces, processes, and exports staple food products from Canada to over 100 countries. The Canadian prairies are a high volume provider of grains, beans, and seeds at a time when other producing countries are struggling with various production shortfalls. With recent year-over-year earnings growth of 16.1%, sales growth of 25%, and production capabilities expanding, this company represents a good example of a Canadian growth opportunity at a reasonable price.

In summary, there are value opportunities in our market to build quality portfolios. The key is doing our homework, having confidence in our decisions, and avoiding the influences of "Mr. Market"

On a housekeeping note, I will be away May 14 – 29th exploring the wine districts of Portugal with Judy and a group of her supporters from Gold Medal Plates. Judy is the Chairman for the Canadian Culinary Championships held in Kelowna every February. This project is a fundraiser for the Canadian Olympic Foundation "Own the Podium" fund and we, along with a number of other couples, purchased a trip to Portugal to support the cause. Teresa will be available and we will be in contact regularly should you need our advice.

Notes from Teresa:

Gross Domestic Product (GDP) Defined

We've heard a lot about Gross Domestic Product—or "GDP"—of late as the Federal Budget analysis heats up. GDP is the broadest quantitative measure of a nation's economic activity. More specifically, GDP represents the monetary value of all goods and services produced by our country. Tax revenues that finance government activities are directly linked to GDP. Government debt to GDP ratio is a measure of a country's financial strength and flexibility.

The 2016 federal budget projects a deficit of $29.4 Bln for 2016 and an accumulated deficit of $113 Bln by 2020-21. GDP growth is budgeted at an annual rate of 0.4% and the federal net debt to GDP ratio is projected by the finance department to remain at 32%. The 32% rate does not include other public debt issued by provincial and municipal bond issuers.

As a comparison, the U.S. net federal debt to GDP is approximately 87%; Greece is close to 155%; Japan is at 134%; and in the other extreme Norway has built up a significant reserve fund that has generated a net debt to GDP of -167%. This means they can operate for 1.67 years without any tax revenue being generated.

These figures are taken from Wikipedia and are slightly out-of-date due to the lag of collecting international data, but it does give you an idea of our country's economic status.