

MARKET COMMENTARY



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Most Asked Questions!

I'm convinced the recent stock and fixed income market anxiety we're experiencing is a result of short term reactions to longer term trends. Maintaining a conviction to investment strategies can be difficult when markets behave badly, so I thought I would provide my view on a few common questions in an attempt to "see the forest from the trees".

My short answers to common questions.

Why are the stock markets down?

The financial crisis of 2008 negatively affected confidence levels throughout the global economy. The reality of the global banking system, led by some of the top financial firms on Wall Street becoming insolvent, led to a significant resistance to any form of risk, to the point that owning assets was considered excessive. As a result all asset classes dropped in value in an uncharacteristic correlated fashion.

The resumption of risk through long term investment in business both directly and indirectly through stock markets has been both slow and lacking commitment. The result has been a protracted return to global economic growth and higher volatility in stock markets, as prices adjust to that slower growth. Stocks are fundamentally valued off their potential for future earnings and the distribution of those earnings to shareholders through increased share valuation and dividends. The undervalued or bargain stocks in our market currently are of companies outgrowing the economy in both revenues and earnings.

How low will the loonie go?

The growth of our domestic economy and the level of overnight interest rates, dictated by the Bank of Canada, fundamentally affect the loonie valuation. The media will refer to our "petro dollar" but essentially it's the affect oil prices have on our economic growth that influences the exchange rate to other currencies. Oil pricing is a significant factor but just one of many factors affecting Canada's GDP.

The loonie is priced relative to other currencies the most notable being the US dollar. We have not devalued as much in the last year against currencies of countries that have a similar influence from commodity exports to their GDP. A holiday in Australia (once you get there) has not increased in value in loonie terms whereas our US spending power has decreased 35% +/- . In my opinion if rising interest rates continue in the US, our dollar may decline further. I also think there will be a point where all governments, which have the ability, will raise rates with the US Fed to maintain currency stability.

Why have preferred shares devalued so much?

Preferred shares provide fixed or variable dividend yields and rank above common shares and behind bond holders in their entitlement to asset protection. They are considered to be a part of the fixed income classification and intuitively you would expect reasonable price stability. In recent years rate reset preferred shares were popular due to their potential to adjust their rates on a five year basis to a multiple of the five year Canada bond rate. What was widely accepted as a rising interest rate environment turned to a surprise declining interest rate environment in Canada in 2015, and these shares had disappointing devaluations. The yields on this sector at current market prices are compelling, credit quality is sound and the selling pressure from late 2015 tax management is behind us. The sector appreciated approximately 2.3% in late December and if we see interest rate stability transitioning to an upward trending bias we will see value recovery.

Is it time to buy oil stocks?

There will be a recovery in oil prices at some point and some oil producers will benefit greatly. The risk is determining the duration of low prices which I think could last a few years, and then determining which company has the low cost of production coupled with a balance sheet strong enough to reach the next pricing cycle. Due to our oil sensitive economy you can benefit from a recovery in oil by owning a diversified portfolio of Canadian companies which will benefit from the GDP growth associated with rising commodity prices.

My final point.

Our financial world was knocked out of its orbit during the financial crisis in 2008. The initial reactions by various governments created a variety of unintended consequences throughout various financial assets. We are gradually getting back into balance and eventually the relationship between interest rates, inflation, economic growth, stock markets and debt levels will become manageable. In the interim we will be challenged by volatility as financial commentators and investors attempt to determine how far along that path we are.

Notes from Teresa:

The TFSA contribution limit for 2016 is \$5,500.00. We can determine your accumulated missed contributions for TFSA's and RRSP's through the CRA website. I can help you access that information with a few minutes of your time and your 2014 tax return.

2015 Tax slips will be sent out on the following dates.

Table Of Dates

Federal & US Forms	Expected Mailing Date
1099-B, 1099-DIV, 1099-INT, 1099-MISC – IRS Reporting (US Persons)	February 22, 2016
T4A – RESP Income	February 29, 2016
T4RSP & T4RIF – RRSP and RRIF Income	February 29, 2016
T5008 – Return of Securities Transactions & Trading Summary	February 29, 2016
T5 & Summary of Investment Income – Dividend and Interest Income	February 29, 2016
T3 – Canadian Trust Income	March 30, 2016
T5013 – Canadian Limited Partnership Income	March 30, 2016
NR4 – Canadian Income Paid to Non-Residents	March 30, 2016
NR4 – RRSP and RRIF Income Paid to Non-Residents	March 30, 2016

Quebec Forms	Expected Mailing Date
Relevé 1 – RESP Income paid to Quebec Residents	February 29, 2016
Relevé 2 – RRSP and RRIF Income paid to Quebec Residents	February 29, 2016
Relevé 3 – Dividend and Interest Income	February 29, 2016
Relevé 15 – Canadian/Quebec Limited Partnership Income	March 30, 2016
Relevé 16 – Canadian Trust Income	March 30, 2016

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