

MARKET COMMENTARY



Graham Burns, CIM, FCSI
Senior Vice President, PCG

Portfolio Manager & Financial Advisor

graham.burns@raymondjames.ca



Teresa Turner
Sales Assistant (Licensed)

teresa.turner@raymondjames.ca

Raymond James Ltd.

Suite 500 – 1726 Dolphin Avenue
Kelowna B.C., V1Y 9R9

Phone: (250) 979-3060

Toll Free: 1-844-979-3060

**“Uncertainty is an uncomfortable position,
but certainty is an absurd one.” -Voltaire 1694-1778**

The headline this morning from Reuters reads “U.S. stock futures rose on Thursday as investors assessed a raft of quarterly earnings reports...Fourth quarter earnings for S&P 500 companies are estimated to have risen 8.3%, the highest in nine quarters.” It’s followed by “Still Wall Street’s reaction to a largely positive earning season has been muted as investors remain cautious amid policy uncertainty under newly elected President Donald Trump.”

In our investment strategy report this morning, Jeffrey Saut quotes Joe Monaco making a case that long-term relationships between share prices and earnings per share is a 16.4 times multiple. The current price of the S&P 500 to earnings on a consensus of analysts’ basis is 21.1 times. However, the stock market is a leading indicator that discounts future events. The consensus estimated price of shares to earnings for 2017 is 17.5 times and in 2018 the estimate is 15.5 times current pricing.

In the event the Trump administration is successful at reducing corporate tax rates, implementing fiscal spending programs, and reducing regulatory expenses while enacting tax reforms, estimates of earnings increases may be understated.

The uncertainty around the implementation of a border adjustment tax or individual tariffs on goods causes concern among us that the American gains may be at our expense. A report from February 3 by Credit Suisse titled “BAT north of the border” says “disruption risk is real but too early to call.” The report also concludes that some sectors of our economy would benefit as we adjust to any changes. We have producers that generate specifically beneficial product in demand by U.S. consumers. We also have significant pipeline and infrastructure companies that could benefit from adjustments to a directional shift in policies.

Credit Suisse’s last caution: “This is the first of a nine-inning game.”

I personally don’t recall an incoming president creating as much anxiety and uncertainty as Donald Trump has created. Then again he did campaign on changing the status quo, and change creates uncertainty. As Voltaire mused, that’s an “uncomfortable position.” I like to keep an eye on the comfort level of stock and bond markets to give me an indication of whether the anxiety is foreshadowing systemic risk or an emotional reaction. I know controlling emotions and investing on fundamentals is far more successful than the reverse.

Stock markets are fully priced but not acting as if they are euphorically priced. Corrections should be expected with any “misses” of earnings and growth expectations but those corrections have recently been tempered by new investors entering the market. Bond yields are inching higher as growth and inflation expectations anticipate more demand for capital. This is not a scenario for a turn into recession or any major corrections in stock markets.

Remember Sir John Templeton’s famous quote, “Bull markets are born on pessimism, grown on skepticism, mature on optimism and die on euphoria.” In my opinion we could be somewhere between skepticism and optimism but better defined as cautiously optimistic.

I don’t recall the feeling of anxiety with my portfolio as much when I entered this business 30 years ago, and I expect it’s because I don’t want to start over at this late stage. I also recognize the majority of my clients are of the “Baby Boomer” era as well and are likely experiencing similar feelings. Keeping it all in perspective and recognizing as Voltaire did that there is no certainty allows us to cope with emotions and manage the fundamentals.

“Politics is the entertainment branch of Industry” - Frank Zappa

All the best,
Graham

Teresa's Notes:

The RRSP contribution deadline for the 2016 taxation year is **Wednesday, March 1, 2017**.

The TFSA contribution limit for 2017 is \$5,500. We can determine your accumulated missed contributions for TFSAs and RRSPs through the CRA website. I can help you access that information with a few minutes of your time and your 2015 tax return.

ALERT: OUR PHONE NUMBERS HAVE CHANGED – Enclosed is a magnet for your fridge with our new phone numbers.

Graham Burns 250-979-2745 Toll Free – 1-844-979-2745

Teresa Turner 250-979-2731 Toll Free – 1-844-979-2731

2016 TAX RECEIPT SCHEDULE

Online Tax Receipts

We are pleased to offer you an electronic delivery option for your 2016 tax receipts. You can elect to receive your electronic receipts online on our client website at www.clearwaterwealth.ca. This secure “paperless” option replaces the traditional paper mailing of all your receipts and our online system will automatically notify you via email as each receipt is posted. To join our paperless campaign, please visit our website or speak to Teresa directly.

If you have chosen the mailing route, and to help you organize for the upcoming tax season, here is some pertinent information regarding the estimated tax receipt mailing dates.

Table of Dates

| Federal & US Forms | Expected Mailing Date |
|---|-----------------------|
| 1099-B, 1099-DIV, 1099-INT, 1099-MISC – IRS Reporting(US Persons) | February 17, 2017 |
| T4A – RESP Income | February 28, 2017 |
| T4RSP & T4RIF – RRSP and RRIF Income | February 28, 2017 |
| T5008 – Return of Securities Transactions & Trading Summary | February 28, 2017 |
| T5 & Summary of Investment Income – Dividend and Interest Income | February 28, 2017 |
| Foreign Asset Verification Report | February 28, 2017 |
| T3 – Canadian Trust Income | March 31, 2017 |
| T5013 – Canadian Limited Partnership Income | March 31, 2017 |
| NR4 – Canadian Income Paid to Non-Residents | March 31, 2017 |
| NR4 – RRSP and RRIF Income Paid to Non-Residents | March 31, 2017 |

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