

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

Market Consolidation

When referring to stock markets, consolidation is a term that describes a period of pricing indecisiveness.

Consolidation in technical analysis describes the movement of a stock's or index's price within a well-defined pattern of trading levels. When investors achieve a higher confidence level for market direction the consolidation period ends when the price of the asset moves above or below the prices in the trading pattern.

The implicating factors that motivate a change in confidence range from earnings reports, interest rate volatility, tax policy, geo political events, consumption rates, GDP growth, even the weather, etc. With the amount of data delivered to investors daily through various mediums, it's no wonder consolidation phases occur as we attempt to make sense of it all. Thirty years ago my job was to communicate information to clients based on analysis. Today I'm still required to do the analysis but it's also necessary for me to "filter" information to determine what is relevant to pricing versus what is exaggerated to create audience interest. Making investment decisions based on advice from sources reliant on viewer ratings or subscribership can be expensive.

The consolidation phase we're currently experiencing in North American markets began in late February of this year subsequent to a market correction from the highs achieved in January. We are currently testing the top end of the consolidation range as second quarter earnings reports are about to begin. Earnings are projected to have a growth rate of 20% +/- over the same quarter last year. That, in combination with the tension surrounding trade tariffs diminishing, may provide enough incentive for a new uptrend to begin.

The trading range we've been experiencing has an approximate 8% variance from top to bottom and if it should continue, any pullback of 5% -8% would be an opportunity to accumulate new positions. In my opinion, if we don't break out to the upside during these earnings reports, we will likely manage it in the third quarter.

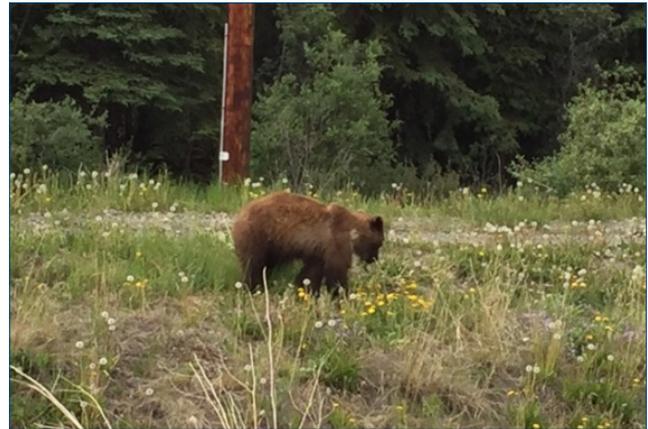
In my last newsletter, I discussed the market adjusting to the "rate of change" in earnings growth and that, while the rate of earnings growth may slow, the market can still produce positive returns. At that time, 10 year bond yields were climbing in the US (got to 3.13%); however, they have since declined to 2.855%. Bonds therefore provide very little competition for investors' capital as their real rate of return after taxes and inflation is still negative.

It looks like this business cycle and the equity bull market have more room to run and value to create, that should persist until we begin to see rising inflation and the associated, upward interest rate pressure.

On a more personal note, in June I packed up my office (in my laptop) and travelled with Judy to Dalton Trail Lodge in the Yukon for some fishing in Kluane National Park. The

Yukon is full of great people, wonderful scenery with an abundance of fresh air and nature and if you haven't been to the Yukon we highly recommend it.

We caught some wonderful fish of various species but none provided the excitement Judy and our guide Andre' experienced in landing the Northern Pike below.



"God will not subtract from man's allotted time the hours spent fishing" - unknown

Have a great summer,

A handwritten signature in black ink, appearing to read "Graham Burns".

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