

June 2015

Overview

Random Gleanings...

Uber Alles! The Uber 'taxi' service is a controversial but extremely successful phenomenon. Last June, the company raised funds that valued the non-public Uber at \$18 billion, only to leap to a \$40 billion implied worth in December. Now Uber is testing the use of high-performance vehicles in Singapore where you can get taken for a ride in a Lamborghini for a \$200 base fee plus \$7 a minute. Tap that app!

Eat, drink and be merry. The Federal Drug Administration in the U.S. is requiring sales outlets, such as fast-food restaurants and theatre chains, to tally up calorie counts on the fat-inducing eats being served. Along with this regulation, the FDA also provided a complicated 'lost pleasure' cost to the consumer of \$5 billion over 20 years for not eating this desirable food. In a late news flash, however, the FDA is backtracking because, well, the analysis is just wrong. And counterproductive to the healthy eating message. Cronut, anyone?

Shake Shack shares. The Shake Shack's menu of burgers, fries and milkshakes might not make it on the FDA's guide to better eating, but investors don't seem to care. Since its market debut in January at \$21, this U.S.-based eatery that started life as a New York City food cart has enjoyed a meteoric flight to the \$92 level, putting that food cart owner's worth at over \$600 million. From humble beginnings...

Maersk my, my. The Triple E container ships that Maersk is sailing these days are huge. How huge? At over 1,300 feet long and 190 feet wide, they will hold 18,000 20-foot equivalent containers. These containers, in turn, would carry 111 million pairs of shoes... all on one boat. Amazing. (Those shoes, by the way, are travelling from China, not to.)

What does a saviour cost? If the name is Mike Babcock and the buyer is the Toronto Maple Leafs, the answer is a lot. At US\$50 million for 8 years, a quick calculation shows that Mr. Babcock will earn a tidy \$25,000 for each period of hockey over that time. This estimate assumes, of course, that the Leafs don't make the playoffs.

Apple of my, my. In its last quarter, Apple sold more than 34,000 iPhones on average every hour, 24 hours a day, every day. That's a lot of flying fingers.

Perception vs reality. We Canadians like to think of ourselves as generous-minded beings, especially compared to the, shall we say, parsimonious Americans. Indeed, charitable surveys indicate we think this is the case but, sadly, the facts say no. The latest Fraser Institute study concludes that a smaller proportion of tax filers in Canada make charitable donations than in the U.S., that U.S. donations as a share of income are double those of Canadians and that their average donated amount is triple ours. So much for perception.

Perception vs reality II. In a similar vein, surveys have shown that over 50% of investors believe their investment returns rank in the first quartile (top 25%) of similar investment portfolios. Think about it.

Perception vs reality III. A recent Schrodgers' survey of investors in 28 countries indicates that 90% of investors expect portfolio growth in the coming 12 months, with the average return pegged at 12%. And the average portfolio mix envisaged to provide this weighty number? 45% in low-risk holdings (cash), 35% in medium risk (bonds) and 20% in high risk (stocks). With cash and bonds averaging 2% yields at best, the math says that achieving the 12% goal would require stocks to gain 52%! Low risk, high return... every investor's dream, but extremely unlikely.

The Liatorp lesson. This name and idea might resonate with anyone who has had the pleasure of assembling Ikea furniture. The name is on an Ikea bookcase and the idea is a couple's therapy test to determine their commitment to each other. The test? Simple, just assemble said bookcase, together. Let the battle begin.

THE LEARNING CORNER

Naming a beneficiary for my TFSA is easy, right?

It's not such a straight-forward task. Depending upon how you want your TFSA handled when you are no longer around to receive the tax-free benefit of the account, there are a few different choices you must consider.

If you wish your TFSA account to continue to exist, you must designate your spouse or common-law partner as Successor Holder. The account will roll over as is, tax-free, to your spouse. All rights transfer with it so your spouse may withdraw from it, consolidate it with her* own TFSA, contribute to it (if she has room), and change the beneficiaries.

If you do not wish the account to continue on, you may name your spouse, children, ex-spouse, or a qualified donee as Designated Beneficiary (DB), in which case, the account will be cashed out and the proceeds will go to your DB (tax-free if less than or equal to the portfolio value at the date of your departure; any value over that is taxable). If the DB is your spouse, she may contribute the proceeds to her own TFSA using an exempt contribution. This must be done by the end of the calendar year after you leave us and a form must be filed within 30 days of the contribution. Any other DB will receive the proceeds tax-free but they can put the funds in their TFSAs if they themselves have room.

Simple, right? Keep in mind you can name your spouse as Successor Holder OR Designated Beneficiary but not both. You may, however, name your spouse as Successor AND your kids (or other) as the DB. The order of distribution is Successor first; if not available, then the DB; if they are not around, the TFSA proceeds would go to a Contingent Beneficiary, if you had named someone.

We realize this can be confusing. If you have any questions about how to name someone so your TFSA is distributed as you wish, please contact your portfolio manager. To ensure your TFSA is set up correctly, please contact your assistant.

* We do not intend to indicate that the husband will cross the finish line first; we needed to use a pronoun and statistically, "her" makes sense. So tell your wife to stop being smug...



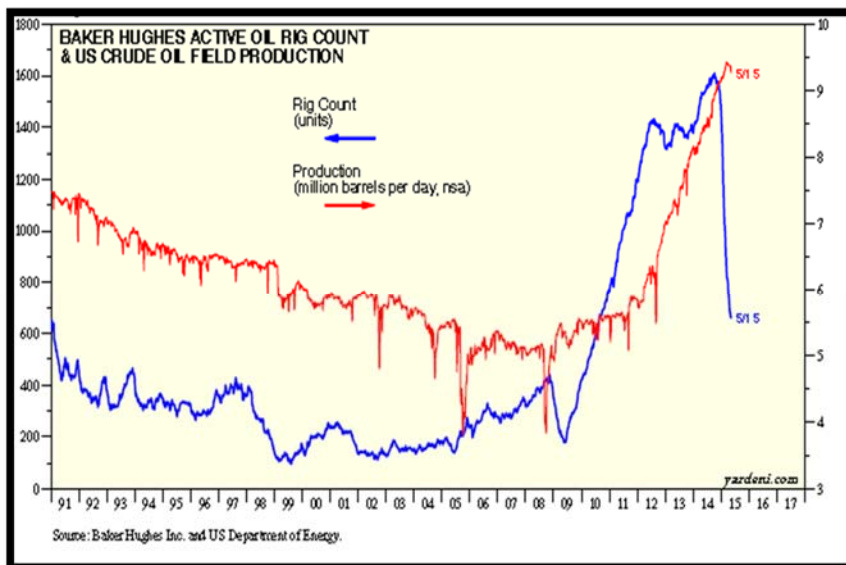
CHARTING OUR TIMES

In the Big Picture section of this newsletter we talk about oil prices and their impact on economic activity. In the supply and demand world we live in, one of the important determinants of oil pricing is the increase in supply (production) that has come from North America, including Canada's oil sands but particularly centered on the big jump in U.S. oil production.

This advance, illustrated in the chart below by the steep red line showing a near doubling of production, comes courtesy of a combination of formerly high prices and controversial fracking technology employed in shale formations.

The chart's blue line represents the number of oil drilling rigs working in the U.S. Since shale oil requires a lot of wells to develop and maintain production, it is no surprise that the rig count went up in lock step with production, reaching a peak last year of over 1,600 rigs. That peak was near the top in oil prices as well, but since then lower prices have demolished the rig count which has plummeted 59% to the latest tally of 659. This level marks the 24th straight week of decline and puts it at the lowest point since 2010. Quite a remarkable reaction.

The big question out of this chart is how much the big drop will affect production and, by extension, the oil price. The market appears to expect an impact as the price has bounced back to near \$60 from its \$44 low just in March and, if you look closely, the chart's red line does show a tiny reversal. Whether this u-turn is a new trend or only temporary is wide open to conjecture as there are many forces at play. One thing is true, though: supply is an important price factor, making the weekly rig-count report a must-watch event for investors.



IN THE OFFICE

Thanks to recent changes to the Ontario Securities Act, all of our Ontario resident clients may now benefit by having access to our RaeLipskie Partners Equity Fund. (Please note: your account must be held at National Bank.) Prior to the change, you could only invest in our Fund if you had \$150,000 minimum purchase or were an Accredited Investor (with many various requirements). Now, RaeLipskie itself is considered the Accredited Investor, and, if our Partners Fund is appropriate for your account, we may buy it on your behalf with the only restriction now being a minimum initial purchase of \$5,000 and subsequent buys of at least \$1,000. When your initial purchase is made, you will receive documentation describing the fund, and semi-annually, you will receive a list of security holdings. Our Partners Fund is composed of our selection of individual growth and dividend-oriented Canadian equities as well as a foreign equity component. If you have any questions about our Fund, please contact your Portfolio Manager.

A reminder that our Charity Luncheon is being held this year at Whistle Bear Golf Club on Wednesday, June 17 at 11:45 a.m. Our speaker is Dr. Thomas William Deans, Ph.D. who will be speaking on how wealth can be transferred successfully without negatively impacting the recipient and the wealth itself. We ask that donations be made to the Cambridge Community Foundation, our charity of choice this year. If you have friends or family who would also like to support the Foundation, please invite them to join you, and let Liz in our office know who will be attending.

We are:

Ken Rae, CFA

Brian Lipskie, CFA

Ted Brough, CFA

David Paleczny

Jo-Ann Carlisle, CIM

Andréa Miljkovic, CFA

Derek Rae, CIM

David Martin, CIM

Jim Harper, FCPA, FCA

Rick Vandermeij, CFA

Taylor Echlin, F.C.S.I.

Thomas Pick, M.B.A.

The RaeLipskie Partnership provides discretionary “fee-only” portfolio management for high net worth individuals, endowments and charities.

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THE BIG PICTURE

Getting Our Energy Back. It has been almost a year since West Texas Intermediate crude (WTI) peaked at roughly \$105 US per barrel. Since then, oil hit a low of \$44/bbl, and has made a better-than-expected recovery to \$60/bbl. Clearly some parts of the country have felt the impact more than others, but investors have felt the pain regardless of where they are. This has been due in part to the impact that this sector has on the overall market. In the TSX Composite Index, the Energy sector accounts for roughly 21% of the weight of the index, while in the US, it's a more modest 8% of the broad-based S&P500 Index. The impact on corporate profits, however, has far out-weighted those index weights, simply because the hit to profits for the energy companies has been so great. First quarter 2015 S&P500 Energy sector earnings were down over 60% year-over-year. Although the S&P500 Index eked out a modest year-over-year profit gain in the quarter, without the Energy sector impact, broad US profits would have been up in the low double digits. The impact is even more pronounced in Canada.

Public companies in the sector likely took the opportunity to include “everything but the kitchen sink” in those first quarter earnings, a time-tested strategy in difficult times to make the comparisons in the recovery all the more favourable. Although slower or even negative profit growth is generally not a positive for the equity markets, investors, to date, have been inclined to view this as a transitory influence. A supply-driven decline rather than one of insufficient demand has helped investors to “look across the valley” to a recovery in energy prices and energy sector profits.

Like all good self-correcting price mechanisms, the lower oil price is sowing the seeds of its own recovery. First we saw dramatic reductions in drill rig counts in the North America, as the Charting Our Times section illustrates, as producers cut back in the face of lower prices. Recently, this has started to translate into lower output levels from those wells, and has subsequently fed into reductions in the rate of growth of inventories, which have been higher than typical for this time of year.

Like all good clouds, this one has a silver lining in the form of the “gas tax rebate” to consumers and industrial users provided by lower energy costs. In Canada, spending on gasoline has declined sharply, accounting for its lowest share of retail spending since 2009. This helped discretionary retail spending hit an all-time high in March of this year. And we all know how important the consumer is to the economy, accounting for over two-thirds of GDP. While the “pain” of lower energy prices has tended to be front-end loaded, the “gain” from the economic benefit of lower costs has been slower to arrive, but does appear to be having a positive influence now and should continue to going forward as well.

QUOTE
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“Money can't buy you happiness but a convertible can get you there faster.”

- Woody Paige