THE RAE LIPSKIE PARTNERSHIP™ | PRIVATE WEALTH MANAGEMENT

December 2015 **Overview**

Random Gleanings…

Bring out the child in the adult. Is the market stressing you out? Are you are looking for that unusual gift? Maybe you should consider the latest fad, a colouring book for adults. As one purveyor claims, they provide stress relief, let loose that long forgotten creativity impulse and, bonus, are suitable for framing. Please just stay inside the lines.

St. Lawrence Flow. Every now and again a story comes out that has hidden kernels of information that can overtake the original. The story in question is the Montreal sewage dump; the kernel is the incredible scale of that great river. It was reported that the river flows by Quebec City at 12 million litres per second, a massive amount of water. For perspective, that flow rate would supply **all** of the personal water use for **all** Canadians in just 3 days' time. Roll on, mighty river.

Selfie Surfeit. The ubiquitous cell phone and its attendant camera have led to a deluge of self photographs, or selfies, taken in myriad places and often in dangerous situations. So much so that some governments have issued warnings because of high-risk selfies resulting in deaths, including poses with a lion, a live hand grenade, a bridge (upside down), a handgun and even a herd of buffalo. In light of this alert, maybe we will stick to taking youies.

Injured by Red Tape? The U.S. healthcare system is now using international ICD-10 codes for billing, with a list of 70,000 ways to get sick, injured or die. These would include some that many can relate to such as getting sucked into a jet engine, the Z63.1 affliction "Problems in relationships with in-laws" and, a personal favourite, the painful V91.07XA, a "Burn due to water skis on fire." Must be some high-speed skiing going on.

A penny for your thoughts? The U.S. penny may finally be on its way out, if the current review by the U.S. Treasury finds its usage sufficiently inefficient. Last year the U.S. minted 7 billion pennies at a cost of 2 cents each. Canada ended all those coppers jingling in our pockets in 2012… hands up those who miss them. Anyone?

This seems like rocket science. We increasingly are living in an on-demand society and Mr. Jeff Bezos, founder of Amazon, is doing his best to put Amazon at the front of that line. For a while now, about a quarter of U.S. residents have had access to Amazon's same-day delivery service. This feat seems remarkable enough, but Prime Now members in some urban areas can now click the Buy button and receive goods within an hour, and without even a drone involved. Amazing. Why, it's almost like shopping in a store.

This is rocket science. Mr. Bezos brought online retail to the masses and now wants to do the same for space travel through his Blue Origin venture. Already in test-flight mode, the plan is to eventually fire rockets into space with six people on board, taking them on a 10-minute, Mach 3 ride 100 kilometres into the atmosphere and, hopefully, safely back to earth for rocket re-use. No word on ticket price but we suspect it falls into the "If you have to ask…" category.

Buddy, can you spare 5 bucks for a … computer? It's true, Raspberry Pi Foundation has come up with a credit-card sized computer for $5 (U.S. dollars, sorry). It runs on Linux and is apparently quite functional, with plug-ins for a keyboard and monitor. Unfortunately, it's still just as dumb as the one you wrestle with at home.

Merry Christmas? Following a weak third quarter, investors can take heart in at least modest progress since. Further, we have passed the 'magic' November 20 date that historically starts the year-end Santa Claus rally. The last 30 trading days of the year have been positive for the S&P 500 index every year since 2003 with an average gain of 2.9%. Since 1950, the index has been up more than 75% of the time with an average jump of 2.4%. Ho, Ho, Ho.

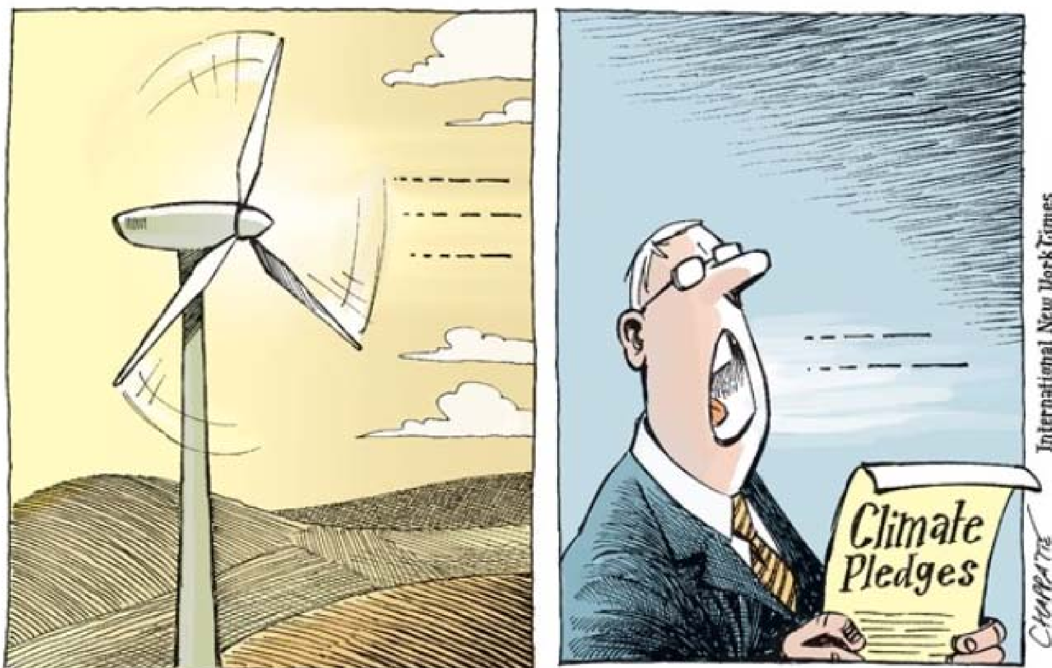
THE LEARNING CORNER

What is FinTech?

Bank shares have been lackluster performers this year even though earnings have grown and dividends have increased. Headwinds include economic concerns, commodity exposure, regulatory uncertainty and suspect consumer debt. One more worry for investors that is bubbling to the surface is the competition coming from FinTech companies which, according to the Oxford Dictionary, “use computer programs and other technologies to support and enable banking and financial services.” In other words, financial technology companies, sized from tiny to huge (think Google and Apple), are looking to disrupt financial services the way that Uber, AirBnB and Expedia have disrupted the taxi, hotel and travel businesses, all with lower pricing and faster service to consumers. Their offerings cover all aspects of financial operations, including lending, payments, asset management, mobile banking, currency transactions etc., with data mining prevalent and Millennials a prime target market.

In Canada, the big banks are all at some stage of restructuring, in part to grow their technology competence to meet this competition. The banks do have built-in advantages, including a huge customer base, a strong level of trust among clients and the financial heft to meet the challenge. They also are working collaboratively with smaller FinTech companies to jump-start their capabilities in areas where they might be lacking. As well, some of the companies are not competitors at all but rather enablers and providers of services that the banks will acquire. While it is clear that this is a competitive challenge for the banks that bears watching, it appears they are making the adjustments necessary to maintain their financial (and portfolio) dominance.

WIND TURBINES:

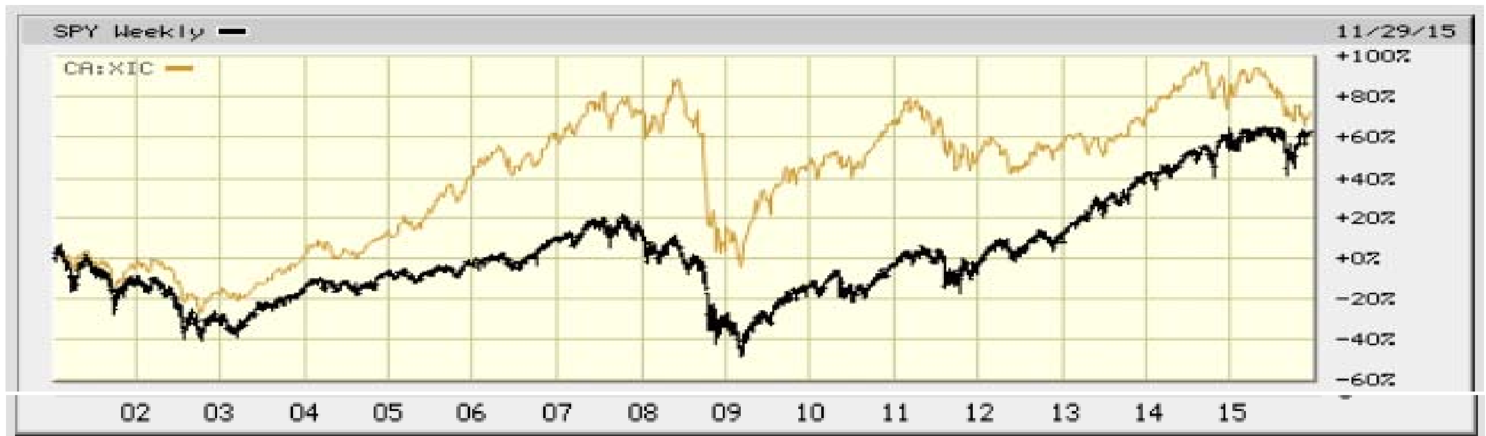


CHARTING OUR TIMES

Canadian investors are painfully aware that the U.S. stock market has substantially outperformed the Canadian market over the past several years. The chart below confirms that sorry fact but also places it in the context of long-term results. It shows the 15-year history of the two markets as represented by exchange-traded funds (ETFs), the SPY for the S&P 500 (in black, U.S.$) and the XIC for the Canadian-dollar TSX, with both indexed to zero at the start of 2001. Over that time, you might be surprised to see that the markets actually performed essentially the same, returning over 5% annualized. And since the loonie gained about 1% per year (another shocker), the return for Canadian investors in the U.S. was lower at 4.2%.

That 15-year period can conveniently be divided into two periods: the first 8 years when Canada was a relative winner and the last 7 when we weren't. The first segment saw the TSX return 2.2%, not an overly impressive number but well above -2.9% losses in the U.S. which drooped further to -5.3% in C$ terms thanks to our strong currency. The leaders were market heavyweights energy and materials (mostly gold and mining) which returned 11% and 12%... the good old days. Then, talk about a reversal. In the second segment, the TSX actually had a strong return of 8.7% but it failed in comparison to the S&P's 15.3% (16.5% in C$ as our currency weakened). Naturally, the previous leaders became the new laggards with negative returns of 1-2%... from first to worst.

And the next 7 years? Impossible to know, of course, but it seems likely that we will need recovery in the woeful resource sector to beat the U.S. in both stock and currency markets. In sports parlance Canada is due, a hopeful expression akin to the reversion-to-the-mean theory which, to the extent markets tend to run in cycles, could be predictive. The main lessons in an uncertain world, though, would seem to be: keep your eye on the long term and manage diversified portfolios.



IN THE OFFICE

As the end of the year approaches, besides thoughts of shopping, baking, eating and making merry, you might be reviewing your taxes and realize you should soon be making donations. If you are planning on donating, a great tax-advantaged way of doing so is to donate shares instead of cash. If you wish to donate shares to your chosen charities, please contact your administrative assistant as soon as possible so this can be facilitated well before year-end.

If you currently have a RRIF account, you should have received notice that the required minimum withdrawal has been reduced this year (and will be lower in the future). If you wish to take advantage of this lower amount, please let us know immediately so we can adjust your information with your custodian. If we do not hear from you, the higher amount will be withdrawn.

Our Client Appreciation reception is coming up soon on Tuesday, December 15. You should have received your invitation in the mail, but if not, please call us to find out all the details. We would love to see you there! If you have not responded to Liz yet, either yay or nay, please do so right away so she can ensure we have sufficient goodies for everyone.

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 Vandermey, 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.

The RaeLipskie Partnership

20 Erb Street West, Suite 201
Waterloo, Ontario N2L 1T2
T 519 578 6849
F 519 578 7269
Toll Free 888 578 7542

1100 Burloak Drive, Suite 300
Burlington, Ontario L7L 6B2
T 905 336 8962
F 519 578 7269
Toll Free 888 578 7542

THE BIG PICTURE

Thank Goodness for Desk Jobs

With the recent release of Canada's latest quarterly GDP (Gross Domestic Product) showing a 2.3% annualized growth rate in the third quarter of 2015, the recession that wasn't a recession in the first half of the year has been left behind. While that growth rate fit nicely into the "not too hot, not too cold" range that has sustained the markets through much of this expansion, it came with an asterisk attached in the form of a weak finish in September. That month's weakness appears to have been affected by short-term disruptions in heavy oil production, primarily a fire at the Syncrude facility that halted production for a month. One of the factors detracting from growth, it was noted, was inventories – companies generally depleted their stocks. However, that means that final demand was actually stronger than the GDP data indicate, growing at more than 3% annualized.

A focus for investors in this modest growth environment has been the weakness in the manufacturing component of the economy – both in the impact it has had this year, and the expectation for any contribution it might make going forward. This relates quite directly, though not entirely, to the travails of the energy sector. The latest Canadian Manufacturing PMI survey (Purchasing Managers Index) from Markit Economics gave a reading of 48.6% - slightly better than the previous month's reading, but still below the neutral 50% level, indicating an expectation of contraction in that part of the economy. That is consistent with the results from the U.S. Manufacturing PMI survey from Markit which, while still sitting in positive territory at 52.8%, was at its lowest level in over two years. One result of the recent downturn and reflective of the longer term trend is the fact that factory employment in Canada is now at about the same level as it was five years ago. In fact, manufacturing's share of total employment stood at just 9.4% recently. The flip side of that coin is that other components of the economy, particularly the service sector, have become relatively much more important, and happily, are in much better shape.

Stepping back to a broader perspective, the latest global PMI data shows a reading of 53.7% for the Non-Manufacturing (Services) sector, roughly at the level it has averaged for the last several years, leaving the overall Global Composite PMI (combining Manufacturing and Non-Manufacturing) at 53.4%, a level that is consistent with GDP growth within the same "Goldilocks" range that has prevailed throughout this economic cycle.

QUOTE of the DAY

"When no one knows what the economy or stock market will do next, people say there's high uncertainty. This is different from low uncertainty when people think they know what the economy and stock market will do next, invariably followed by being wrong, which they blame on high uncertainty."

- Fool.com