THE RAE LIPSKIE PARTNERSHIP™ | PRIVATE WEALTH MANAGEMENT

March 2017 **Overview**

Random Gleanings…

The Trump market has to be the biggest news of the past few months. Contrary to pundits' gloomy predictions and despite missteps and outraged protests, the U.S. stock market has been nothing short of spectacular since election day. The Dow Jones Index has set new records on 31 days, including a record-tying 12 days straight, and it crossed the imposing 20,000 barrier on its way to a 13% + gain in a few short months. Warren Buffett's conclusion: don't let politics overwhelm investment decisions.

Perhaps President Trump's more, shall we say **controversial proclamations** will be moderated as former Israeli Prime Minister Ariel Sharon's were when he discovered on taking office that "The things you see from here, you don't see from there".

The recent **heavy rains in California**, coming of course after claims the drought might never end, and the resultant concerns about the Oroville Dam remind us of warnings about the Mosul Dam on the Tigris River in Iraq. There, though, it is a much bigger dam, 370 feet high and two miles wide, with much greater consequences of failure. The dam is weak, built on unstable rock that requires 24/7 injections of a concrete mix (10 tonnes per day) just to keep it standing. The UN predicts hundreds of thousands of deaths if the dam fails with some estimates in the millions, the result of a monster wave flowing down the Tigris for a hundred miles, right to Baghdad. The New Yorker magazine asks: Is this a bigger problem than ISIS?

Have you heard of **Amazon's flying warehouse**? The company has patented the concept of a giant airship or blimp, fully stocked with goods that would hover at an altitude of 45,000 feet and use drones for quick delivery to eager customers. Always looking for another way to twist the knife in the brick-and-mortar retailer's back.

This type of **aggressive foresight** has been hugely rewarding for Amazon, now worth over $400 billion. But it wasn't always thus as the founder, Jeff Bezos, told *60 Minutes*. Back in 1995 when Amazon was a struggling start-up, it took 60 meetings to raise $1 million from 22 investors for 20% of the company. If any of those 1% investors at $50,000 maintained their holding, it would be worth $4 billion today. The stuff dreams are made of.

Taking a cue from Amazon, it is becoming a thing in many cities for **restaurants to go virtual** as well. What does this mean? It means there is a kitchen somewhere, a cooking staff, an app and Uber delivery but no expensive location and no servers… a delivery-only operation. The purveyors of such an approach now include big names such as David Chang of Momofuku fame. They bring to life the saying *don't go there*.

If you check, no doubt there will be **You Tube** videos featuring virtual restaurants. They could even be among the 400 hours of video that are being uploaded during the minute that it takes you to skim this page. In case that doesn't impress you, the math means that 65 years of video are being uploaded every day. Still not moved? We (the world) watch 1 billion hours of video a day, equal to 42 million days. It's up to you to determine if all those days, every day, are wasted time.

Want to take a **moonshot**? SpaceX, Elon Musk of Tesla fame's rocket company, will be offering a moon orbit (no landing, but round trip included, likely) to two intrepid travelers in 2018. No word on who gets the tickets or what the price will be, but it sounds, ominously, like a once-in-a-lifetime opportunity.

This trip won't get the happy couple to the **recently discovered planets**, some of them possibly life supporting, in the Trappist 1 system. But they are only another 35 trillion miles away, so maybe a drop-in visit will be planned for another time.

No word on who will pilot the SpaceX craft but maybe it's one of those self-drive vehicles. Not so, not yet at least, for the near-earthbound planes most of us ride in. Boeing Company has forecast that global airlines will need to recruit and train over **30,000 pilots a year** for the next 20 years to replace retiring pilots and accommodate the big growth they see coming in air travel. With all the young pilots coming on, let's hope that training is thorough.

THE LEARNING CORNER

What is the BAT?

This is the Border Adjustment Tax that has been much in the news lately, as its imposition is under consideration by the Trump administration. It is a type of consumption tax and if you replace the B with a V you get VAT or Value Added Tax, which is the common form of national consumption tax around the world. In Canada we have the HST, including a VAT component (GST) which is a similar concept since consumers across the country get to fill government coffers with this additional levy on most of what we buy, domestic and import. Some form of VAT has been discussed in the U.S. for years and, so far, always rejected.

The details get a little complicated, but essentially the proposal would see all imports taxed (20% has been bandied about) and all exports freed of corporate tax, not dissimilar to our GST. Generally speaking, this makes exporters happy but importers, U.S. consumers and other countries not so much. The theory is that the import/export tax regimes would offset and manufacturers would flock to the U.S. to produce goods. This would bring back offshored jobs, increase exports and reduce imports, all of which would act to strengthen the U.S. dollar. A strong currency, in turn, would reduce the inflationary effect of the import tax, thus making consumers not quite so mad. All clear so far?

Within the U.S., the plan has its advocates and detractors. President Trump was opposed in January, "warming up" to it in February and completely ignoring it in his recent message to Congress. No one knows if the BAT will see the light of day, but enactment could have negative implications for U.S. trading partners and world trade generally.

CHARTING OUR TIMES

In many facets of life we are told to expect the unexpected. This valuable little adage was never more proven than in the action of the U.S. stock market over the past year or so. The chart below (partial credit to Bespoke Investment Group) depicts the Dow Jones Index from January 1st of last year and shows how the completely unexpected rally of over 30% (and counting) from the February bottom developed. First, of course, we endured the grim start to 2016, down 13% and marked down as the worst in history. In the depths of that dark February, the common view saw more trouble ahead just as the market surged ahead.

After some consolidation (backing and filling as it is known), the market reacted badly to the Brexit vote, but then, against all odds, rallied strongly again in the face of this seemingly negative development. Then we had more base building and worries about the election, Donald Trump worries in truth, followed by an amazing development: the surprise Trump election victory. The Trump win, initially considered a disaster for the market, instead provided the fuel needed for the third big leg up as investors digested his pro-growth policies. There followed a few weeks of relative calm as expectations built for trouble after the inauguration. But no, taking office only provided another starting line for a rally that continues as we write.

We think there are at least a couple of lessons from this experience. First, timing the market is futile, even if (or maybe especially if) you are relying on advice from some of the biggest brains in the business. Those four legs depicted comprised only 100 of the 254 trading days of the past year, so you needed to be there throughout. And second, of course, expect the unexpected.

IN THE OFFICE

We are increasing our online presence. Please look for us on Facebook, Twitter and Linked-In. If you miss our posts, we will be assembling the highlights in a monthly E-newsletter to you (if you have shared your email address with us). We hope you will find the content interesting and informative. If for some reason you do not wish to receive this communication from us, please choose to unsubscribe at the bottom of the E-newsletter, or contact us and we will ensure you are removed from the distribution list.
You will continue to receive our quarterly newsletter.
If your friends or family might be interested in either the monthly or quarterly newsletters, please forward the documents to them.

We are pleased to welcome two new staff members.

Sarah Ramon joined RaeLipskie late last August to fill Heather's position as Administrative Assistant. (Heather was promoted to Senior Client Services and Portfolio Managers' Assistant.) Sarah is getting to know a lot of our clients and is very willing to help any way she can.

David Brune joined us last November. Dave holds his CFA charter and is registered with the Ontario Securities Commission. He is proving to be a valuable addition to our portfolio management team.

Welcome, Sarah and Dave!

We are:

Ken Rae, CFA

Brian Lipskie, CFA

Ted Brough, CFA

David Brune, CFA

Jo-Ann Carlisle, CIM

Taylor Echlin, F.C.S.I.

Jim Harper, FCPA, FCA

David Martin, CIM

Andréa Miljkovic, CFA

David Paleczny

Derek Rae, CIM

Rick Vandermey, CFA

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

If you have managed to read this far, you will have noticed several references to the positive impact that President Trump appears to be having on the U.S. stock market (see the Overview and chart). Many wonder how this can be given their own intensely negative opinion of the President and his perceived lack of qualifications for the job. Besides the fact that there are wildly disparate views of the man, we see two main aspects at work here. First is our view that economic and market fundamentals are already in place to support the market, and second is the idea, increasingly recognized by investors, that the President's pro-growth policies add further impetus to the market's appeal.

We recognize that there are legitimate concerns about the sustainability of economic growth, the translation of such growth into corporate earnings and the valuation parameters that determine the market's appeal. Such concerns are with us always, but need to be balanced against the positive elements in place. Perhaps the most important of these is the job machine that is the U.S., as the impressive growth in employment, mostly full-time, combined with moderate wage gains is boosting the primary driver of economic activity, the consumer sector. Indicators for both the service and manufacturing areas are pointing to sustained growth also, all of which bodes well for the world's economic engine and the improvement in corporate profits that is expected to ensue. While the market valuation is not cheap, and could well face a short-term correction, in the context of a low-inflation, low-interest rate environment it appears reasonable.

Then there is President Trump. His growth platform includes lower taxes for individuals and corporations, with the latter expected to entice much of the $2 trillion that corporations hold overseas back into the U.S. He wants to cut red tape within the massive regulatory structure that is jamming the works of commerce and has plans for big spending to improve the country's aging infrastructure. It remains to be seen how much of the plan becomes policy, but at least the first two of these, it seems, are letting loose the 'animal spirits' which have lain dormant for some time now. In this regard, it is interesting to note that confidence levels of both consumers and small businesses, the latter the biggest contributor to job growth, have jumped sharply since the election.

QUOTE of the DAY

" Not free thought for those that agree with us, but freedom for the thought that we hate."

- U.S. Chief Justice Oliver Wendell Homes Jr., 1929