THE RAE LIPSKIE PARTNERSHIP™ | PRIVATE WEALTH MANAGEMENT

June 2017 Overview

Random Gleanings

Have you been bitten by **the travel bug** lately? Lots of people have according to exceptional growth in the travel industry. So much so that cruise lines are ramping up capacity with 65 ships on order over the coming three years, hotel chains are adding 560,000 rooms in the U.S. alone and the casino business is expecting revenue growth over 17% in the coming year. Viva Las Vegas.

The eyes have it. Mastercard is planning to use iris scans later this year as a security check for its 'Selfie Pay' mobile payment system. Perhaps this feature will extend to India where mobile payments are leapfrogging credit card use and where the leading mobile wallet, Paytm, has over 200 million users. Bye, bye cash.

Which one is better? This is a recurring question when it comes to a comparison between stock markets in Canada and the U.S. We the north did much better in 2016 but the U.S. has outpaced us so far this year as well as cumulatively over the past several years. It is instructive to note, though, that in the 20 years to the end of April the two markets were virtually dead even in the 7.5% return area and the currency factor was flat. Probably contrary to the common view that Canada has lagged over the long term.

The Nasdaq index, heavily weighted to technology stocks, popped through the elusive 6,000 level for the first time in April. This makes 17 years, or 4,308 trading days, since it hit the 5,000 mark in the hi-tech heyday year 2000 (remember Y2K?). Of the 10 top names on the list back then, only 4 remain today. *Sic transit gloria*.

This index includes Apple, which is the first company to reach an $800 billion market cap and is up 33% this year. Also in the club is the famous FANG group of internet-based stocks: Facebook, Amazon (which recently touched $1,000), Netflix and Google (via Alphabet), all of which are up over 25% year-to-date. Isn't technology great?

Is Facebook bad for you? A study recently published in the American Journal of Epidemiology followed over 5,000 adults for two years and found that more Facebook time equated to poorer physical and mental health and less satisfaction with their lives. The authors' conclusion? Technology isn't always so great.

To make matters worse (or better for shareholders), surveys from *Statista* on **mobile-device users** age 16 and over have found that time spent online is high and rising. The U.S. number approaches 2.7 hours a day (Canada is slightly lower), a time commitment that is up over 60% since 2012. Does that deserve a like?

It might not feel this way for many consumers, but statistics show that **personal credit scores** are improving. A lot. In the U.S., the average score reached a record high of 700 recently while those below the 'risky' 600 line fell to a record low. In Canada, the proportion of first-time home buyers with low credit scores is at a long-term low. Good news for consumers (and lenders).

Elon Musk is at it again. Mr. Tesla has launched a neurotechnology company called Neuralink, apparently to develop implantable brain-computer interfaces (BCI). In a tweet he says "Difficult to dedicate the time, but the existential risk is too high not to." A penny for your thoughts? … especially if you know what that quote means.

Wine history. Apparently this May marked the 40th anniversary of an historical event in the wine world. It was the first blind taste test to pit newbie California wines against the obviously superior French varieties. To everyone's surprise (et horreur), California came out on top which paved the way for the global wine business of today. You can drink to that.

Canada at 150. Raise a glass to Canada to wish the old girl the happiest of birthdays and to recognize our great good fortune to have lived here for so many of them.

THE LEARNING CORNER

Will robots destroy jobs?

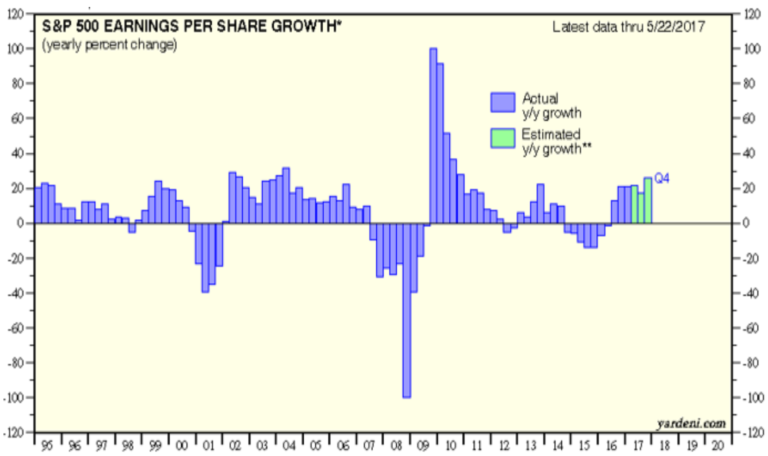
The quick answer to the above is yes, we hope. Taking the word robot to represent devices and technologies that will do what humans do now, history shows that such advancements in automation are a prime reason behind improving standards of living. Contrary to dire warnings about job-market devastation from technology, two recent Wall Street Journal headlines hint at the other side of the story: Robots Will Save the Economy and Robots Aren't Destroying Enough Jobs.

The gist of both underlying articles is that productivity is so important to economic growth and living standards that automation is an imperative we must embrace. In a highly competitive world having more productive workers is the key to keeping jobs; unproductive organizations are vulnerable. The first article points out that this is particularly true of the 'physical' industries such as health care, retail, transportation and manufacturing where productivity has lagged drastically compared to the 'digital' sector that includes technology, finance and communications. According to the authors, this physical sector makes up 75% of private-sector employment in the U.S. while accounting for only 30% of technology investments.

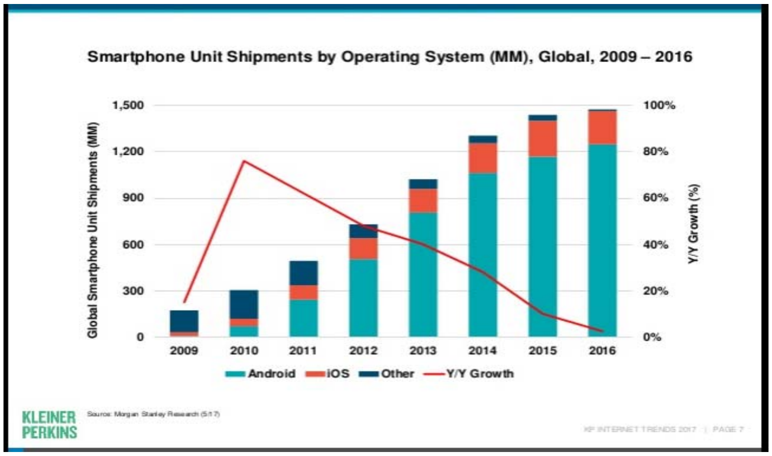
This is changing, the authors optimistically conclude. They point out the dramatic advancements in the energy field and the digitization of retail and distribution that, yes, has eliminated 76,000 jobs at physical stores in the U.S. but has added 400,000 e-commerce positions over the past 10 years. And the health-care sector, a major productivity laggard, will see technologies that make current treatments less expensive, not just adding new, more expensive treatments. If the 'robots' are allowed to do their jobs, they say, the American economy will add trillions of dollars to its output over the next 15 years, a pretty good gain for some short-term pain.

CHARTING OUR TIMES

The first chart helps to explain why the U.S. stock market, as measured by the S&P 500 Index, continues near record-high levels even though many consider it to be fully valued. We view corporate profits as the lifeblood of the stock market since profits provide the basis of reinvestment opportunities and dividends, the fruits of ownership so to speak. When corporate earnings are rising, and expected to continue, investors are willing to pay more for that growing stream. Following weak numbers surrounding 2015, the chart shows the profit picture improving and, in green, expectations by market analysts that the trend will continue at an elevated rate. This is a positive picture for stocks.



The second chart carries some nostalgia with it. It presents the annual level of global smartphone shipments and growth line over the past 8 years. The level is still impressive near 1.5 billion phones but the growth rate has flattened as the base of phones in service is now huge. While hype might give you the impression that iPhones (IOS) are the leading brand, the fact is they actually make up a relatively small part of the global market. And the nostalgic part comes with the chart's early years when the blue 'Other' segment made up the bulk of sales and a big chunk of those were BlackBerrys. In 2010 RIM was on top of the world with near 20% of the global market and the number one phone in the U.S. Sadly, that blue segment has pretty much disappeared.



IN THE OFFICE

The invitations are in the mail!

Please look for your invitation to our **15th Annual Charity Luncheon.** Last year, Canada Post failed to deliver quite a few of our invitations due to a new sorting machine. Unfortunately we did not learn until after the event that many of you were unaware of the luncheon. So we invite you to contact us if you would like to attend.

The luncheon will be held on Tuesday, June 27 from 11:30 to 2 at Westmount Golf & Country Club. Our speaker is Bryan Larkin, Chief of Waterloo Region Police Service and all your donations will benefit **Carizon**. Please contact Nicky at 519-578-6849 or nicky@raelipskie.com to reserve your seat before June 16.

We look forward to another successful event and hope you can join us.

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August and September is the **back-to-school** season, which means an increase in **RESP withdrawal** volumes. To help avoid any potential delays with your withdrawal requests, please provide us with Official Proof of Enrollment that meets CRA's guidelines. An official document from the post-secondary institution, such as Confirmation of Registration of the Registrar (recommended), an invoice from the institution, or schedule is usually sufficient.

The document needs to show the following: name of the student, name of school, semester, and status (full or part time). We also need to know the academic year start date, academic year length in weeks, program length in years, and current program year.

If you have any questions about your RESP account, please contact your administrator or portfolio manager.

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To receive this Newsletter in your email inbox, please call our office.

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THE BIG PICTURE

Economic growth in Canada and the US diverged in the first quarter of 2017, with Canada recording a barn-burner rate of 3.7% real GDP growth, while growth in the U.S. came in at a modest 1.2% year-over-year (initially reported as an even more meager 0.7%). While we aren't suggesting that the U.S. result be simply brushed aside, the fact that the Q1/17 value marked the ninth straight year of weaker than expected first quarter GDP readings does suggest that it might be given less weight in considerations of the trend in growth going forward.

The revised U.S. Q1 GDP report saw real final sales grow at a respectable 2.2% annualized rate, partially offset by some drag from inventories. More recent reports from the manufacturing and labour markets point to U.S. economic growth having accelerated sharply in Q2, potentially to above 3% annualized.

In Canada, consumers contributed significantly to the first quarter GDP result. Household consumption, buoyed by the strong labour market and rising home values, rose at a 4.3% annualized rate, its highest since 2010. Residential investment (spurred by the red hot real estate market) was up 15.7% in the quarter for its biggest gain since early 2012. The pick-up in consumption came with a decline in the savings rate, which fell to 4.3% from 5.3%. The combination of income gains from solid labour markets, the housing wealth effect, continued low interest rates (at least for borrowers) and available savings are all supporting consumption. Importantly, a pick-up in business investment boosted first-quarter growth following a decline in four of the past five quarters, with companies spending more on industrial machinery and equipment, as well as computers and intellectual property.

Looking forward, the broad-based indicators that we track continue to provide favourable perspectives for expected growth. The Purchasing Managers Index (PMI) has largely held on to the gains it recorded since turning the corner from the early-2016 lows. The global manufacturing component stood at 52.8% in April (values above 50% indicate expansion, below 50% indicate expected contraction), while the non-manufacturing component (services) stood at 53.6%. Meanwhile the Index of Leading Economic Indicators (LEI) continues to climb to new record highs. Of course, it's not all good news, with the softness in commodity prices, for example, in response to changes in credit policies in China putting somewhat of a cloud on Canada's outlook. However, the bottom line remains that we are in a generally favourable combination of economic circumstances. Should any readers remain concerned that we are being left behind by the more business-friendly policies of our neighbour to the south, it's worth noting that with this latest quarterly economic print, the Canadian economy has now outpaced the U.S. since the last recession.

QUOTE of the DAY

"Far more money has been lost by investors preparing for corrections, or trying to anticipate corrections, than has been lost in corrections themselves."
- Peter Lynch