THE RAE LIPSKIE PARTNERSHIP™ | PRIVATE WEALTH MANAGEMENT

September 2017 **Overview**

Random Gleanings

A year ago in this space, we pointed out that **Amazon's Prime Day** sales were up 60% from the year before. This year we can report that this same event, the biggest day in Amazon's remarkable year, garnered yet another sales increase of, yes, 60%. This result is due in part to the big jump in Prime memberships that now comprise fully 20% of American consumers. As well, increasingly speedy deliveries entice buyers, including Prime Now locations where some goods arrived in 12 minutes. The juggernaut continues.

Amazon's best seller was the **Echo speaker** which can be used to order yet more Amazon products, this time by voice, a virtuous circle indeed. Not to be outdone, retail giant Walmart has teamed up with Google to offer a similar voice ordering service through the Google Assistant platform. Hey, Google, order some chips from Walmart.

Big revenues don't mean big profits for Amazon, but the company has one initiative in place to improve margins. The idea is to boot off the site unprofitable products known internally as CRaP (Can't Realize a Profit). The sellers won't like the terminology but the move makes sense.

Everyone knows that **Instagram** is one of the most popular go-to platforms for active social-media users. Did you know that some deep research has concluded that analysis of postings could also be used as a depression monitor, with more predictive ability than doctors? Quite amazing, if true.

On the other hand, research has also shown that the **replacement of cursive writing with keyboards** is hurting our brains. Not physically, of course, but studies do show that our brains work harder, and develop better, when we are writing versus typing. We can already hear suggestions that our next newsletter should be written instead of typed.

Does a corporation have a personality? The big investment bank Goldman Sachs must think so because it plans to use personality tests in its hiring process. Candidate responses will be compared to current-employee answers as the company looks for ways to compete with hedge funds and Silicon Valley for the skilled workers it needs. Group think, anyone?

This brings us to a new term in the HR hiring business, **"acqui-hire"** which is short for acquisition hire. Due to a distinct shortage of skilled workers, particularly in the technology field, some firms have resorted to buying a company, not for its business but to get access to the company's employees. Sounds expensive but we guess you do what you gotta do.

Do you know what **the most popular vehicle** is, by sales, in Canada? No, it's not the ubiquitous Honda Civic, which clocks in at #3 with less than half the unit sales of #1 and it's definitely not green. It might come as a surprise, but that top spot is actually taken by the Ford F-Series truck which sold 60% more units in 2016 than the #2 contender, which just happens to be another truck, the Dodge Ram pickup. Further, if you combine GM's GMC Sierra and Chev Silverado, pickup trucks would handily take the top three positions. Keep on truckin'.

Things that make you go huh? Lego, the toy company, recently fired its CEO after only eight months on the job. The stated reason was not performance related but rather due to his age. Must have aged a lot in those eight months.

Do you remember how **in the 1980's Japan was on top of the world** and considered a business, economic and educational paradigm for the west to follow? Then how the model flopped and the stock market topped out in the early 1990's, to be followed by over 20 years in the financial doldrums? The stock market is only a little over half that long-ago high but has improved lately, along with the economy. In fact, Japan's Cabinet Office's estimate of second quarter growth would mean a string of six consecutive positive quarters, the best stretch in more than a decade. Maybe not quite a last-shall-be-first story but at least now a support for the global economy.

THE LEARNING CORNER

Does Tesla sell junk?

The quick answer to this question is yes. The longer answer requires a distinction between Tesla's finances and Tesla's cars. The cars are consistently well reviewed for their appearance, build quality and performance (rocket on wheels is a common theme). Definitely not junk.

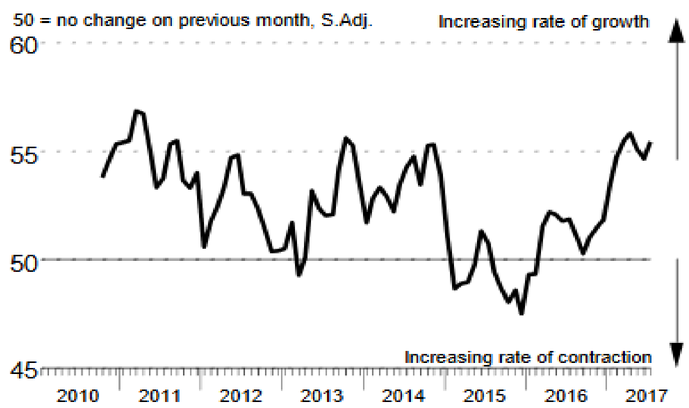
Where the junk description comes full force is on the company's financial side. In August, the company went to the bond market for money to finance production of its new mass-market car, the Model 3. The bond issue amounted to $U.S.1.8 billion of unsecured notes due in 2025 (callable in 2020) with a 5.3% coupon that reflected credit ratings of B3 at Moody's and B- at S&P. Those ratings place the company well into junk territory, hence that relatively juicy 5.3% yield for investors. Some big non-buyers think that yield should be even higher given the ratings. Compare that price to Apple (AA+) which would pay a little over 2.5% for a similar dated issue.

Why junk for Tesla? Notwithstanding Tesla's high-flying share price, bond investors worry about getting their interest payments and maturity value from a money-losing company with grandiose plans for auto-market domination. Of course there is a risk that won't happen which is reflected in the junk yield. Tesla needed the money so they sold junk to get it.

CHARTING OUR TIMES

We have referenced PMI (Purchasing Managers' Index) often in our publications. A measurement of corporate front-line business assessments, PMI readings above the 50 line in the charts below indicate positive economic outlooks. Joined by similar emerging-economy conditions, these charts present, at least for now, a positive and coordinated global picture.

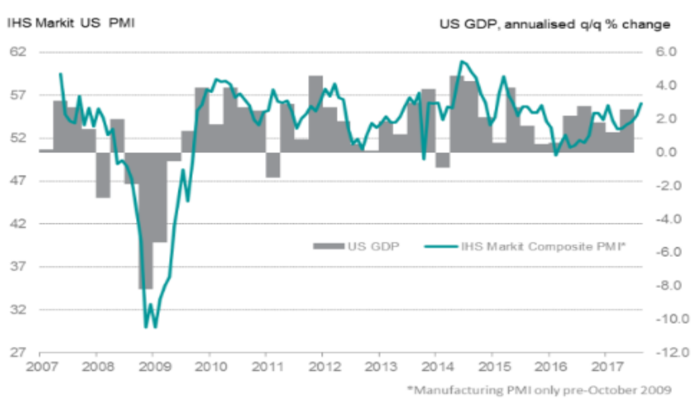
IHS Markit Canada Manufacturing PMI



Source: IHS Markit

(PMI™) registered 55.5 in July, up from 54.7 in June, to remain above the neutral 50.0 threshold for the seventeenth month running.

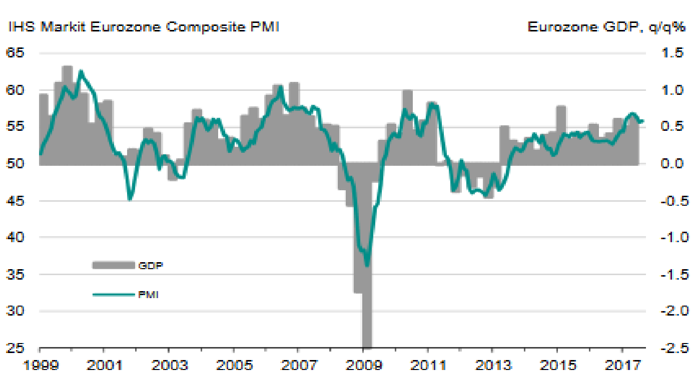
IHS Markit Composite PMI and U.S. GDP



Sources: IHS Markit, U.S. Bureau of Economic Analysis.

A tale of two sectors: vast services economy exceptionally strong at 56.9 in August; manufacturing conditions continued to improve at 52.5 but at a weaker pace.

IHS Markit Eurozone PMI and GDP



Sources: IHS Markit, Eurostat.

The 55.8 August level was supported by positive assessments in both manufacturing (57.4) and services (54.9) sectors.

THE BIG PICTURE

The absence of volatility should be welcomed by both investors and money managers alike. After all, life has enough stresses to keep us all busy. If markets can continue to chug along at a modest pace, never losing too much on down days, it allows everyone to rest a little easier at night - everyone but those who believe that low volatility represents the proverbial "calm before the storm."

"The past 30 days have been the least volatile of any 30-day period in more than two decades…This quiet market has led some to worry that a market storm may be brewing, as peaceful periods in the past have frequently ended in sharp corrections." So said an article from the Wall Street Journal published **over a year ago.** Since then, the returns of the global market have been up quite nicely.

A more recent report from Bespoke Investment Group revealed that the S&P 500 hasn't suffered a downturn of 5% or more since June 2016 – a period of over 400 calendar days and the longest streak since May 1996. Now, we all know markets can be erratic so doesn't the relative calm mean we are due for a correction? After all, we've just experienced a tragic wave of terrorism in both Britain and Spain and heightened geo-political tensions between the United States and North Korea.

Maybe we are, but corrections (which we define as sudden, sentiment-driven drops of 10% or more) can happen for any reason – or no reason at all. They come without warning and at random intervals. Since the bull market began back in 2009 we've had six. Two in 2010, two in 2011, one in 2012, one in 2015 which carried into 2016. Those were not enough to end the bull market and a premature exit would have proven quite costly.

The reality is that if you require equity-like returns to reach your goals, owning stocks is necessary. Because we are not aware of any investor being able to successfully time the market - getting out at peaks, and back in after corrections have run their course – we simply accept volatility as the price of admission to achieving higher long-term returns. Yes, there will be another correction in markets. No, we will not be able to predict it. But to interpret any single measure as an indication of future direction is an error in judgement and ultimately makes it more difficult for you to achieve your goals.

So let's ignore the lack of volatility and evaluate markets based on quantifiable factors. Right now investors are nowhere near euphoric, the global economy is growing, and corporate earnings are rising. While politics are always full of drama, that drama tends to create gridlock and gridlock reduces the possibility of legislation that has the potential to disrupt markets. Therefore if stocks are appropriate for some or all of your portfolio, we urge you to stay cool as markets climb the wall of worry.

QUOTE of the DAY

From an article on the famed investor Charlie Munger, partner of the even more famous Warren Buffett:

Echoing Pascal, who said some version of 'All of humanity's problems stem from man's inability to sit quietly in a room alone', Munger adds an investing twist: *"It's waiting that helps you as an investor and a lot of people just can't stand to wait."*

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