

MARCH 16, 2015

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DEEP THOUGHTS BY MATTHEW ELMSLIE

I have attempted to keep the technological brakes on at my home for years. I'm a big fan of books with bindings and paper and bookmarks. I only have cable simply to keep up to date with current events and sports.

Recently, my daughters (seven & ten) have been pushing for iPod Touches. Apparently ALL of their friends have them! Despite their obvious hardship, I simply refuse to buy these things for them. We recently had a spirited conversation about needs versus wants. My seven year olds' life savings amounts to a little north of \$140 while the net worth of my ten year old is a tad above \$100 (she's a bit of a spendthrift). My five year old boy is off of the grid and has no need for insignificant things like money.



After doing some research we found out that a 5th generation iPod Touch would cost more than \$300 with taxes. Way outside of their price range... so...

- Plan #1 - They briefly considered pooling their money in order to buy one and then sharing it. They quickly realized that was doomed to failure and moved on...
- Plan #2 - They asked if they could be my client. My price of admission was for them to come up with company names where who-bubs (aka consumers) spend their money. Their list was pretty good including Apple (quelle surprise), Home Depot, Wal-Mart, Tim Hortons and TD (they consciously omitted McDonalds seeing as they are not allowed to go there frequently enough). We spent some time working through analyst reports and will be deciding on a suitable direction. I'll keep you posted.
- Plan #3 - We did some research into used iPods and found that they could both afford a 4th generation iPod without completely wiping out their savings. Amazing.

Sometimes the answer is to make more money. Other times, the answer is to spend less of it. Whether your portfolio has 3 digits or 8 digits, it is always a good idea to spend less than you make.

We manage serious money for people who are serious about their wealth. Our clients receive proactive advice with a focus on prudent growth and minimal risk. We are currently accepting new client inquiries and would be happy to discuss our services. Our note was designed to ensure that we communicate regularly with our clients. With that said, we are happy to share our views/thoughts with like-minded individuals (or even those who disagree with us)... If you would like to share... feel free... If you receive a forwarded version let us know - we'll ensure you get it every week.

Have a great week (it's March Break and I'll be attending "Frozen on Ice." Pretty sure that life doesn't get any better than this)... Matthew

CURRENCY: A MOVING TARGET

Catherine Carlin, CFA; Sergio Lopez, MBA

Currency movement can have a significant impact not only on investment portfolios but also on companies that may be held in an investor's equity portfolio.

The most obvious impact of foreign exchange on investment portfolios results from currency translation: that is, the change in value of investments that are denominated in a currency other than an investor's own, once they are valued back into the portfolio's home currency. For example, Canadian investors who owned U.S. companies in their portfolios over the second half of last year clearly benefitted from the tailwind of the strengthening USD. In evaluating the total portfolio return, it is beneficial to understand how much of the return came from the underlying investments and how much resulted from the change in currency.

While many companies have currency hedging programs to help mitigate risk of currency swings, these are, in practice, often difficult to implement as they necessitate effectively matching up hedge maturities with complex daily cash and capital flows. Translation effect, referenced above with respect to an investment portfolio, is also a factor for multinational companies that must translate the income statements of their foreign subsidiaries back to home currency at the end of a reporting period. For example, one of P&G's foreign subsidiaries is in Russia, which does not use the USD as its functional currency; its income statements must therefore be translated back to USD at new exchange rates for each quarterly reporting period.

There may be transactional and balance sheet revaluation impacts as well. Transactional impact can be illustrated as follows: P&G's Russian subsidiary imports Gillette razors from Germany. When the euro appreciates against the ruble, the cost of the razors increases for the Russian subsidiary and reduces its profit.

Balance sheet revaluation occurs when assets or liabilities are denominated in a different currency and must be revalued at prevailing foreign exchange rates at the end of a reporting period. Continuing the example above, when P&G's Russian subsidiary imports razors from Germany, it holds a euro-denominated account payable that must be revalued at the end of the quarter at then-prevailing spot exchange rates. Balance sheet revaluations generally flow through the expense line, thus also impacting earnings.

It is sharp currency dislocations that are most challenging for companies. Over time, and where the currency moves are thought to be more persistent, companies can adjust their business models and take actions to mitigate the currency effect through pricing adjustments, improving productivity, altering the supply chain or shifting manufacturing operations to the lower currency regions. Needless to say, some of these accommodations take time to implement and to have effect, and there may be costs and capital spending involved if the solution involves moving manufacturing facilities, for example.

While it's clear that foreign exchange may be complicated for companies, investors seeking to take advantage of the current strength in the U.S. dollar can begin by screening for Canadian firms with a significant level of revenues in the U.S. Ideally these companies will also have a significant proportion of their expenses denominated in CAD for maximum currency tailwind. For investors looking for U.S. dollar exposure, it may be helpful to focus on companies that generate most of their revenue in U.S. dollars, and conversely to be cautious with U.S. companies that have significant operations outside of the U.S.

CANADIAN RESALE HOUSING MARKET IMPROVES MODESTLY IN FEBRUARY

Diana Petramala, Economist – TD Economics

- Following three disappointing months, the Canadian housing market showed signs of improvement in February. Existing home sales inched up 1.0% in February, up 2.7% from last year. But the level remained 5% below the 10-year average. Listings fell in the month, pushing the sales-to-listings ratio back up to 52.5, from 50.2 in the month prior. A sales-to-listings ratio between 40 and 60 indicates a balanced market.
- Average existing home price growth re-accelerated in the month, rising 6.3% year-over-year, up from 3.1% in January. The Canadian real estate association also produces a quality adjusted price index, which tracks changes in prices for homes of similar size and type. The quality adjusted home price index remained stable at 5% year-over-year, suggesting the acceleration in the average existing home price reflects a shift in sales towards more expensive markets.
- There was a sharp divergence in regional housing markets in February. Major urban markets in British Columbia and Ontario accounted for the bulk of the increase in existing home sales in the month. Sales were down in most other markets, led by the Atlantic provinces. On a quality adjusted basis, year-over-year gains in home prices remained strongest in Vancouver (+6.4%), Toronto (7.8%) and Calgary (+5.9%).
- Average existing home sales in both Calgary and Edmonton are down 34.5% and 16.7%, respectively, from year ago levels. While Calgary home prices have held up on a quality adjusted basis, the average price of homes sold in February was down 3.6% from year ago levels, indicating that the income hit from the drop in oil prices since the summer has had the most negative impact on demand for more expensive homes. Average existing home prices were flat on a year-over-year basis.

Key Implications

- This morning's data release painted a picture of an overall Canadian housing market that is neither too hot, nor too cold. As was largely expected, the 60% plunge in oil prices since the summer has hit commodity-dependent markets quite hard, while major cities in Ontario and British Columbia are benefiting from a new low in interest rates. With both markets relatively tight, home price gains, especially for single-family homes, will likely maintain some momentum over the next few months.
- While low interest rates may continue to provide a modest boost to housing demand over the near-term, the impact is likely to fade as 2015 unfolds. Average existing home prices in commodity driven markets, such as Alberta, Saskatchewan and Newfoundland, are likely to weaken further as the year progresses. Meanwhile, the combination of an increase in the unemployment rate in February, elevated household indebtedness and a deterioration in affordability in Canada's key markets will keep a lid on overall housing activity for most of 2015.
- Overall, TD economics continues to forecast a moderation in the Canadian existing home market, with sales likely to remain relatively flat in 2015 and 2016 and existing home price growth expected to decelerate to a 1 to 2% year-over-year pace. A stable housing market means the bank of Canada will be in no rush to raise or lower interest rates over the near-term.

ECONOMIC UPDATE

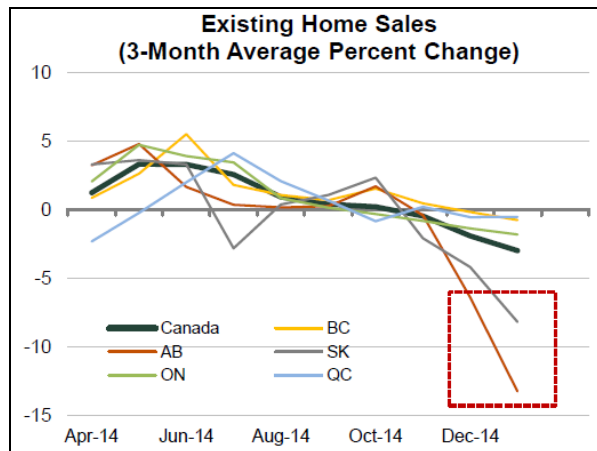
TD Economics

THE TD VIEW					
		Macro Outlook	Trading Bias		Key Risks
			Rates	FX	
G 1 0	US	2015 should mark a key transition to a self-sustaining economic recovery, boasting growth of 2.5% or better.	Front-end yields to begin edging higher in March with the curve bear-flattening, as the market begins pricing in Fed hikes.	The USD may move sideways near-term but we think modest USD dips in the next few weeks represent buying opportunities.	The inflation data will be central to when the Fed hikes rates, and a more persistent disinflationary thrust can delay lift-off.
	Canada	Leading edge of oil-related weakness in activity data; more to come. Positive growth offsets present, clouding the outlook.	BoC to stay on hold in March, though front-end will maintain an easing bias. Curve to steepen in 2015Q2	USDCAD looks fully-valued currently and may consolidate near-term. Buy short-term USD declines.	An unexpected slowdown in the US economy absent a rebound in the price of oil would severely curtail growth in 2015.
	Europe	UK wages could pick up but BoE won't hike with low inflation. EZ to grow but sluggishly. Riksbank and Norges to cut rates further.	First hike could be pushed further out in UK with election uncertainty. Bunds to remain bid among large negative net supply.	We remain positive on GBP and expect EUR to under-perform broadly this year. NOKSEK looks capped around 1.12.	Inflation expectations could fail to stabilize so central banks, particularly in Scandinavia, could be forced to ease even more.
	Asia-Pac	Sub trend 2.5% growth for Aus in 2015 with a rebound in 2016 to 3.5%. NZ to grow above trend, but peak has likely passed.	ACGB yields to push lower, but prefer SSAs on ongoing grab for yield thematic.	Sell both on rallies; long AUDNZD only for the tactical.	Aus: Suppressed animal spirits and a downturn in China. The risks for NZ are completely exogenous.

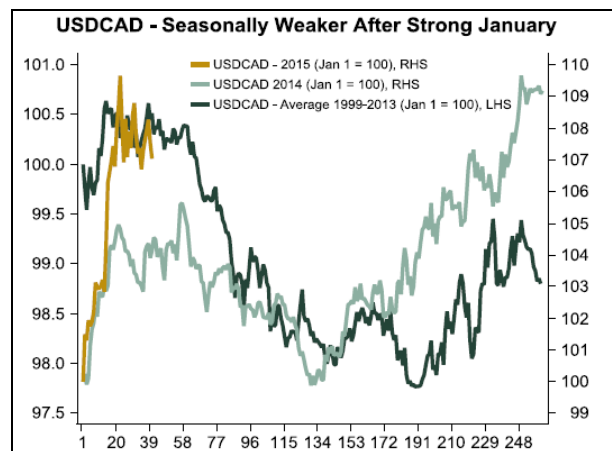
Source: TD Securities

Canada Snapshot

- Macro - Regional weakness in housing and across confidence measures signal the leading edge of the drag that lower oil prices will exert on the economy. However, positive growth offsets from manufacturing have proven potent. Headline inflation to fall further, but core will remain more resilient. The Bank of Canada's reaction function based on risk management suggests that the 25bps insurance cut was sufficient for now.
- Rates - There is significant uncertainty around the next move from the BoC, but Poloz appears to be signaling a wait and see approach. The front-end of the curve will maintain an easing bias, supporting a steeper curve in 2015Q2 (especially 2s5s). Canada-US spreads look fair around current levels as we expect to Fed to start tightening roughly a year ahead of the BoC.
- Foreign Exchange - A lot of bad news is priced into the CAD at current levels and seasonal factors suggest that the CAD may bounce modestly in the next few weeks. Soft commodity prices and diverging central bank policy stances suggest little scope for a sustained USD drop, however. Look to buy USDCAD dips.



Source: CREA/TD Securities



Source: Macrobond, TD Securities

THE OTHER SIDE OF THE CANADIAN COIN

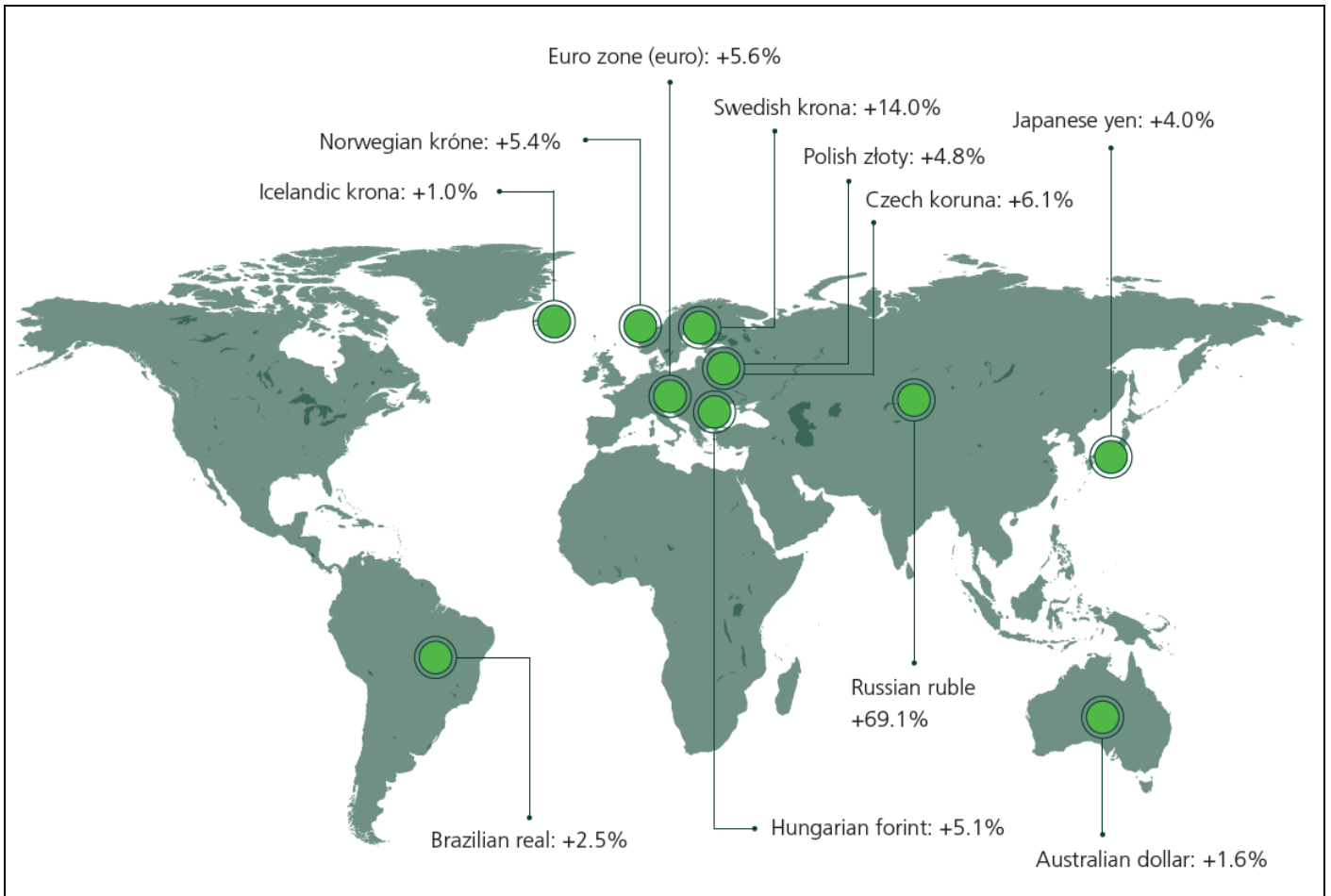
If you don't like Sarasota... perhaps Malmo?

Is it that the Loonie is weak or is simply that the U.S. dollar is strong?

Below are a handful of currencies where the loonie has witnessed strength in the past year.

Not sure if this is the right year to visit St. Petersburg but it is from a currency perspective.

I also hear that Malmo, Sweden is wonderful in March (if you get bored... Copenhagen isn't far).



Source: Bloomberg Finance L.P. Year-over-year. As at February 3, 2015.

RECOMMENDED READING

- The European Central Bank - Let the show begin: <http://goo.gl/OFB9lo>
- In Denmark: Consumer Loans Where a Bank Pays the Borrower: <http://goo.gl/MvFGGa>
- Google: Still in the Search, Part 1: <http://goo.gl/A0l35i>
- Google: Still in the Search, Part 2: <http://goo.gl/vFNhmi>
- Google: Still in the Search, Part 3 (recommended): <http://goo.gl/Tsyunc>
- Google: Still in the Search, Part 4: <http://goo.gl/y3cDqz>
- U.S. Running Out Of Oil Storage? Blame Canada: <http://goo.gl/3qAFRE>
- How One Stupid Tweet Blew Up Justine Sacco's Life: <http://goo.gl/Ki4Nk5>
- Canadian Bonds Find Favour with Japanese Investors: <http://goo.gl/vtZfWM>
- Brazil politicians in huge 'oil kickback' probe: <http://goo.gl/DSC TZ1>
- Five Things You Need to Know About the Apple Watch, Which Ranges from \$350 to \$17,000: <http://goo.gl/gmHx3x>
- Hollywood should be very afraid of Popcorn Time, the "Netflix for piracy": <http://goo.gl/XtB6FO>
- Canada's Prison for Polar Bears: <http://goo.gl/LD6pwz>
- After 70 years apart, North and South Koreans speak increasingly different languages: <http://goo.gl/3exIKN>
- On The 10 Year Anniversary Of Mad Money, An Objective Look At Jim Cramer's Recommendations: <http://goo.gl/iwxTU>
- Citigroup's Roaring Revival on Wall Street: <http://goo.gl/cny8N5>

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