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⇒ Easier to read "SCROLL DOWN" format

⇒ Story and link intros

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SEPTEMBER NEWSLETTER EDITION

LICENSED ADVISORS

Sergio Simone

- Tax Efficient Investment Strategies for High Net Worth Clients
- Alternative Investment Strategies
- Flowthroughs

Kristina DeSousa

- Mutual Fund Investments
- Life & Disability Insurance
- Employee Benefits
- Travel Insurance
- Critical Illness Insurance
- RESP Specialist

Ryan Simone

- KPW Life Planning Specialist
- Mutual Fund Investing
- Life & Disability Insurance
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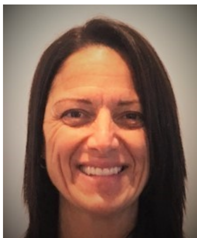

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Executive Assistant

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VOL. 5, ISSUE 9 SEPTEMBER 2016

"Stock market bubbles don't grow out of thin air. They have a solid base in reality, but reality as distorted by a misconception."—George Soros

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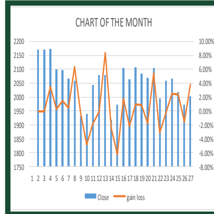
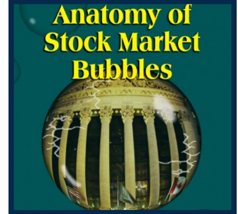
Sergio Simone EDITORIAL COMMENT

History of Market Bubbles



Bubble or Opportunity?



Book of the Month

Editorial Comment

Are we on the verge of a massive market crash? Some people like Michael Lewitt, author of **"The Committee to Destroy the World: Inside the Plot to Unleash a Super Crash on the Global Economy"** are convinced that we still haven't dealt with the problems faced in the last recession and, as a result, will face another crisis. His principal argument is that the Fed tried to solve the debt crisis by printing trillions of dollars of debt. This unto itself is not the problem. The problem stems from the opinion that this borrowed money isn't being used for productive ends. Fortunately, for now, the low interest rate environment is covering up a lot of looming problems, but eventually the piper has to be paid. In a nutshell, this is the doom and gloom picture being painted by an increasing number of pundits.

Continue Reading

History of Market Bubbles

The number of "bubble proponents" is increasing at an alarming rate and many are citing the supposed similarities to the bubble that burst in 2000. So, I thought I would do some research and determine if there is some concrete basis for all the hoopla. I began by looking at the number of IPOs in Q1 of 2000. There were 123 of them. In Q1 of 2016 there were exactly nine. In fact, more US initial public offerings collapsed than succeeded in the first quarter of this year.

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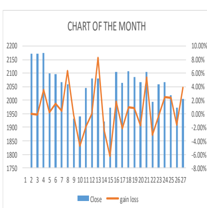
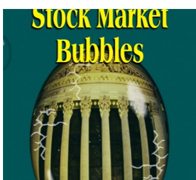
Bubble or Opportunity



16 years have passed since the S&P 500 peaked in August 2000. During that period of time, the index has earned approximately 2% annualized return. This is the lowest 16-year annualized return since July 1982 and August 1953. As harsh a reminder as this is, the last two times this happened was right before major bull markets that lasted for many years. So, is now the worst time to be investing in equities since the "Tech Wreck" or the best buying opportunity since 1982.

Continue Reading

Book of the Month



STOCK MARKET BUBBLES –By Gyorgy Komaromi

This book aims for an ambitious goal when it tries to capture one of the most controversial and obscure phenomena in Economics, namely the "stock market bubbles." Komaromi directly leads us to the heart of the topic, when he provides critical analysis of related literature from different economic schools.

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Ryan Simone
THE MILLENNIAL SERIES

FUND OF THE MONTH
CANOE ENERGY FUND FACTS

INVESTMENT TERMINOLOGY

THE WAY I SEE IT
By Kristin S.

The Millennial Series—Chapter 9—A Don't Do List For Millennials

One benefit of being a young investor is that there is usually ample time to recover from any investment mistakes. A young investor still has decades to earn an income that can fund most blunders big or small. Even with time on one's side, making mistakes is still costly, disheartening, and often very stressful.

The science behind markets, the economy, and investing goes back many years, and, although not a perfect science, there is enough data, experiences, and theories to help even young investors avoid big trouble. Instead of learning from their own mistakes, millennials are in the fortunate position of using other generation's investment blunders to their own benefit.

Continue Reading

Fund of the Month—Canoe Energy Fund A

This fund's objective is to increase the value of your investment over the long term by investing in companies located in countries undergoing rapid industrialization. As part of this fund's investment objective, it invests primarily in equities of companies in emerging countries like Brazil, Chile, Greece, India, Malaysia, Mexico, Pakistan, South Africa, South Korea, Taiwan and Turkey. It may also invest in fixed income securities. (MORNINGSTAR CHARTS)

Investment Terminology

FINANCIAL REPRESSION—This is a term used to describe measures sometimes used by governments to boost their coffers and/or reduce debt. These measures include the deliberate attempt to hold down interest rates to below inflation, representing a tax on savers and a transfer of benefits from lenders to borrowers.

It can be particularly effective at liquidating government debt denominated in domestic currency. It can also lead to a large expansion in debt to levels evoking comparisons with the excesses that generated Japan's lost decade and the Asian financial crisis in 1997.

The Way I See It - Security vs. Convenience

Kristin S. is a woman working in the corporate world in an executive position who has generously offered to write a monthly article for the KPW newsletter. Kristin S. will focus on her personal perspectives relating to investing, finance and insurance.

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Why Bull Markets Make Everyone Miserable

You might have expected a bit of elation on Wall Street about the massive performance the US

The Illusion of Power

All hail the mighty Federal Reserve, the setter of interest rates and gatekeeper of the economy.

"No Limit to Monetary Easing" Bank of Japan

Economists debate limits of monetary easing, especially negative interest rates that

Budget 2016 Tax Tool Calculator

A handy tax calculator that lets you see how Budget 2016 impacts your pocket

Adapting Portfolios to Climate Change

We believe all investors should incorporate climate change awareness into their investment processes.

Tactical Investing Necessary in Today's Markets

Markets do not appear to be in a risk-off mode, and in some cases are hitting all-time highs. Yet Sadiq S.Adatia argues that

How to Tame a Grey Swan

When it comes to different economic and investing regimes, not all asset classes are created equal.

Value Stocks When the Price Isn't Right

Ever since the 1970s, when it was discovered that value stocks tend to have higher average returns than growth

Weak Eurozone Inflation Bolsters Case for More Stimulus

Consumer price inflation in the Eurozone was stuck at 0.2% in August, a low rate that could

Bank of Canada Holds Interest Rate at 0.5 Percent

Canada's economy was a major disappointment in the first half of 2016. Even so, the Bank of Canada is not budging from its

Weak Eurozone Inflation Bolsters Case for More Stimulus

Consumer price inflation in the Eurozone was stuck at 0.2% in August, a low rate that could

Weak Eurozone Inflation Bolsters Case for More Stimulus

Consumer price inflation in the Eurozone was stuck at 0.2% in August, a low rate that could

The GTA Housing Market: Is There Logic Behind the Madness?

by Benjamin Tal with Katherine Judge

CIBC ECONOMICS

In Focus

August 15, 2016

The GTA Housing Market: Is There Logic Behind the Madness?
by Benjamin Tal with Katherine Judge

Executive Summary

The future trajectory of housing in the GTA is not written in stone. Low interest rates have created the potential for house price inflation. Policy-driven land shortages released that potential, resulting in today's housing affordability crisis. The GTA is in a twilight zone of home prices characterized by a homeownership mentality that is slow to change to the required higher propensity to rent. With interest rates unlikely to rise any time soon, the future of housing in the GTA will be shaped by the ability of these factors to adjust.

Provincial Policies Limiting Land Supply

- Policies such as the "Places to Grow Act" have limited the availability of serviced land for ground-oriented houses through setting aggressive intensification and density targets
- Poor measurement of existing intensification and density rates can potentially result in even less elastic land supply given current proposals to raise those targets
- Time-consuming approval processes combined with developers holding on to land as it appreciates have increased the amount of time it takes for land to be brought to the market
- A surge in government-related development costs has compounded the affordability issue

Directions for Land Assessment Policy Changes

- The province should reassess the proposal to raise current intensification and density targets
- Future intensification and density targets must be tailored to reflect accurate starting points and account for development in inbuilt areas that cannot be replicated
- Consistent protocols for municipalities to assess and report short-term land supply must be implemented in addition to fast-tracking land development approval processes

The future trajectory of housing in the GTA is not written in stone. Low interest rates have created the potential for house price inflation. Policy-driven land shortages released that potential, resulting in today's housing affordability crisis. The GTA is in a twilight zone of home prices characterized by a homeownership mentality that is slow to change to the required higher propensity to rent. With interest rates unlikely to rise any time soon, the future of housing in the GTA will be shaped by the ability of these factors to adjust.

VIDEO LINKS

Tips for negotiating a lower interest rate

Bruce Sellery explains how to get a lower interest rate at the bank

Five Scenarios for Stocks

After reaching record highs, stocks may grind slowly higher vs. an explosive move to the upside.

Volatility Drop: Summer Fling or Something More

The markets this summer have been uncharacteristically quiet—low trading volumes and low volatility.

Charts of interest:
Oh, behave!

September 2016

Charts of Interest: Oh, behave! RBC Global Asset Management has produced a wonderful piece containing charts illustrating the perils of trying to time the market as well as a chart indicating that investors seem to redeem equities at the worst time and the Volatility Index after Brexit. (Double click icon to open)

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EDITORIAL COMMENT CONTINUED

This diatribe eased up somewhat during the August lull as peace and quiet has reigned over the markets. The big question on our minds is whether or not this peace will last. In my opinion, this is unlikely, but at the same time, I don't believe this secular bull market has run out of steam just yet. The third quarter is shaping up nicely and appears to be set to improve on the lackluster performance during the first part of the year. This will likely be accompanied by much higher volatility. During the summer doldrums, volatility has fallen to near multi-year lows. Congress is out of session and much of Europe vacations in the month of August. Is this the calm before the storm? Traders will soon be back to work, politicians and central bankers will return to once again tackle those pesky problems that just won't go away and market action and volume should ramp up.

I am not insinuating that this will now cause markets to crash. In fact, my position is the exact opposite. If your portfolio is overweighted in U.S. equities, you should stay there and use the volatility to tactically rebalance around those levels, or use corrections to increase your positions. Situations like the Brexit vote which was followed by a sharp selloff and immediate rebound will come again. Those that took advantage of this situation and increased their investments have been handsomely rewarded. These opportunities will always be there. Be prepared to take advantage of the next one.

The Ned Davis Daily Trading Sentiment Composite Index has fallen back to neutral territory more recently yet investor bias has decidedly swung to the downside as an additional $6 Billion has been redeemed out of U.S. Equity Funds and Exchange Traded Funds in August. According to ISI Evercore Research, this is very near record outflow levels. As a financial advisor, this is exactly the kind of sentiment that makes me feel more comfortable and optimistic about my bullish position. Over the decades that I have been in this business, one thing remains constant. "INVESTOR SENTIMENT TENDS TO WORK IN A CONTRARIAN MANNER".

If you review the latest output of U.S. economic data, there doesn't appear to be any imminent recession in our near future, which would typically be an omen of an upcoming bear market. Consumer confidence is fairly consistently stable and the labor market is improving along with housing and rising wages. Add an increase in both revolving consumer credit and bank loans and I am led to believe that money is moving through the system. This is exactly the prescription required to maintain a healthy and growing economy.

Still, I'm not quite ready to follow Alice through the looking glass into Wonderland, even though productivity was modestly up over the last two months. The fiscal policy makers have to find a way to grease the economy's gears and pick up some steam. Their lack of doing so is making people and business owners very nervous and when they get nervous, they don't spend money or invest in their businesses. Instead they increase their savings, even in a negative interest rate environment or they pay down debt, buy back shares or bolster cash reserves instead of spending on productivity and efficiency enhancing equipment.

I expect the U.S. bull market to continue, but risks remain and volatility is likely to increase. My reasoning is that a solid U.S. consumer, and modestly improving economic and earnings growth will cause the general upward trend in equities to continue.

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HISTORY OF MARKET BUBBLES CONTINUED

I assume that the vehement positions taken by the “bubble proponents” scared many companies’ hopes of going public. It was so bad that cancelled listings outnumbered successful ones for the first time since the depths of the financial crisis in 2009.

The average return for an IPO in the first quarter of 2000 was a blistering 96%. This year it was a paltry 22%. According to www.chittorgarh.com the first five first day IPO returns for Q1 2016 were 23.8%, -21.13%, 30.55%, -25.59% and -2.55%. Conversely, the numbers in 2000 were astounding at 508%, 698%, 606%, 525% and 508%. In 2006 Malcom Baker and Jeffrey Wurgler published a paper titled “Investor Sentiment in the Stock Market.” Both authors do research for the National Bureau of Economic Research. The paper compared the relative valuations of dividend paying companies with those of more speculative companies.

Analyst Mark Hulbert observed that: “As exuberance reaches extreme levels, investors become bored by established, dividend-paying companies. In March 2000, speculative companies on average had a 43% higher valuation than the dividend paying stocks. The comparable premium today for stocks in the S&P US Equity Risk Premium Index TR is 0.45%. The key here is that interest rates have fallen so low that dividends have become a viable alternative to fixed income. Although this makes this data point somewhat less compelling that it might have been otherwise, it still points to a lower risk appetite.

Companies raise cash from the secondary market when that window is open. This may be a means to evaluate periods of speculative excesses. In Q1, 2000, corporate cash derived from equity issuance was 20% versus less than half of that today.

Comparing share turnover is another way to differentiate the bubble era from today. The turnover rate in listed shares on the New York Stock Exchange in Q1 of 2000 was an annualized 89%. In the first quarter of 2016 it was 65%. By the end of Q2 it had fallen to 58%.

Taken as a whole, these points suggest that speculation is not running rampant today as it did in 2000. Although these arguments offer some interesting concepts to consider, the comparison between any two bubbles is virtually meaningless. No two major market peaks have ever been the same. Each one is individualized and should be treated as such.

Every major market peak, and subsequent devastating reversion to the mean correction has involved speculation in something. From the Tulip Bubble in 1600 to the South Sea Bubble in 1750 to the Commodities Bubble in 1973, to the Long Term Capital Management Bubble in 1997, to the Tech Wreck Bubble in 2000 or the Subprime Lending Bubble in 2008 there is always speculation in something. The only reason that investors fail to recognize the major turning points in the markets is that they allow emotional “greed” to keep them looking backward instead of forward. Unfortunately, the media fosters much of this willful blindness by dismissing and chastising opposing views until it is too late.

Source: Robert Shiller

CONTINUE READING

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HISTORY OF MARKET BUBBLES CONTINUED Page 2

Interesting enough, at the peak of each one of these markets, there was no on claiming that a crash was imminent. It was always the contrary. It was a multitude of bullish pundits dismissing the comments of the nagging naysayers. In the end the bubble bursting came as something unexpected.

No one knows for sure what the catalyst will be to spark the next Reversion to the Mean but some lingering issues should not be ignored. We must be diligent about our awareness of Excess Leverage; IPO's of negligible companies; Companies using cheap debt to complete stock buybacks and pay dividends, or: high levels of investor complacency.

Taken on their own, each of these situations is basically inert, but as a whole it is like drenching a pile of wood with gasoline, sitting back and waiting for the catalyst that will create a spark and ignite the wood pile.

For now, I believe the bullish scenario is alive and well albeit prodding ahead at a snail's pace. I also believe that we are not currently in a speculative bubble although a crash is inevitable at some point in the future. When it does eventually come the reasons will be quite different from the past except for one tiny factor: There will be speculation involved, at obscene levels, in something. It's the "something" that I am trying to keep an eye out for.

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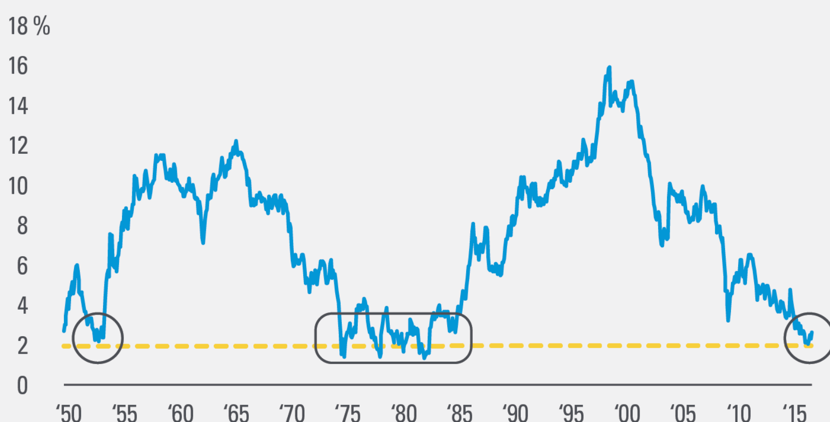
BUBBLE OR OPPORTUNITY? CONTINUED

IS NOW THE BEST BUYING OPPORTUNITY SINCE THE EARLY 1980s?

● S&P 500 16-Year Annualized Return



Source: LPL Research, FactSet 07/26/16

I believe we are comfortably nestled somewhere in between these two extremes. What I do not believe is that we are in a bubble. The ongoing assertions that we are in the late stages of this economic cycle may be true but this does not necessarily imply that that markets are about to collapse. Based on economic data the probability of a recession in the near term seems remote. With earnings beginning to rebound over the last half of this year and yields near historic levels, equities might turn out to be one of the better places to beat inflation over the next year or two.

Although sentiment indicators are more optimistic than they were earlier in the year, they are still a long way off from previous major market peaks.

Unfortunately, we will not know whether the market has been in a bubble until well after it bursts. The best we can do is keep an eye out for typical indicators that may be getting stretched. For example the 12-month trailing price-to-earnings ratio on the S&P 500 broke out to an 11-year high in Q2 and valuations do tend to get extremely high during a true bubble peak, but they are still nowhere near the 30 times level that was reached at the height of the tech bubble in the late 1990s.

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BOOK OF THE MONTH CONTINUED

Special attributes can be derived from mathematical, experimental and literary economics that differentiate bubbles from other regular fluctuations of stock markets.

The premier goal of this book is to give a comprehensive explanation for this phenomenon for a wide audience, and to provoke further discussions. Historical cases have been analyzed: e.g. booms and crashes in the '20s, in the late '80s, and around the millennium.

A case study of Budapest Stock Exchange between 1996 and 2003 is also added. From time to time we should reconsider our knowledge of stock market bubbles, since there could very well be a high probability that we are experiencing a bubble-like phenomenon today.

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THE WAY I SEE IT CONTINUED

SECURITY VS. CONVENIENCE

There seems to be an interesting dynamic happening in the investment industry when it comes to client security versus convenience. As I was discussing potential investment options with my advisor the other day, I realized how much complexity there is in the process to select and purchase investment products. We spent some time discussing various funds available based on my preferences and time horizon (well worth the time), and then once we had landed on a product, there were materials to review, (and a few days later) forms to sign, and cheques to write.

It may be my imagination (or just that it's been a while since I've gone through the process…and I haven't really bothered to inquire whether this is true), but it seems as though the number of security and compliance activities is increasing. While I do value the security of my personal information and investments, I find this interesting at a time when other industries are being overhauled by the move towards convenience and digitization.

In the age of Uber, Airbnb, Amazon and Apple Pay – it's amazing how much can be done from a smartphone (or watch!) and how traditional business models have been revamped in pursuit of customer convenience. In a typical day, I can:

- Stop to get breakfast on my way to work, and pay using my phone
- Drive to work via the 407 where tolls are electronic (my transponder also lets them know I'm a frequent traveller; my payments are automated, so while I'll receive the bill, I don't actually have to take any action to make a payment)
- Order lunch and pay for it via my phone; it will be waiting for me when I arrive to pick it up
- Realize I've been eating too much take out, so order groceries (also via my phone) that will be delivered by the time I get home
- Uber to another site to pick up a cheque (get there quickly and safely, then of course, give the driver a great rating)
- Deposit the cheque (using - you guessed it! - my phone)
- Look for a weekend getaway – sign up for an Airbnb account (where they validate my identity using a few different methods), review ratings for a few apartments (and hosts) that are in the neighbourhood I'm looking for, place a request for my favourite one, and hope they accept me
- Check the number of steps I've taken (again, using my phone)
- Send those last few text messages before I go to sleep (I've had ongoing conversations with multiple people all day, because obviously my phone never leaves my side)

In each of these examples, regulation and security is still a factor, but the steps taken are very different from the original business model. There has been a lot of discussion lately about robo-advisors, which seems to be the investment industry's move towards a different model. I've heard some good things (including convenience and low rates), as well as some challenges (such as customer service and a learning curve). I have to admit, while I've never used a robo-advisor, I'm not prepared to take financial advice from a machine instead of a person I trust. For now, I'll hold out in hopes that the next wave of changes will allow me to work with my existing advisor (digital signatures from smart phones anyone?)

As I client, I'm very interested to see where the future of the investment industry heads – and what new ideas come about to preserve security and customer service, while advancing convenience.

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THE MILLENNIAL SERIES—CHAPTER 9—A "Don't Do" List For Millennials—Continued.

Don't Speculate with Serious Money

When millennials think investing they tend to gravitate towards those newer, flashy, upcoming investment opportunities that are clouded in long-term risk. Those who are young and new to the investing game will sometimes "believe" they lean towards the higher risk speculative side of things, without really understanding what that means. I recently overheard the following statement: "there are a few very wealthy speculators out there and very many more who are broke." The truth is, many people young and old can't handle the big swings that accompany a high risk position. I've spoken with individuals who will tell me they can handle risk but at the same time recoil at the inclination that a high risk portfolio could lose greater than 50% of its value in any given year.

A better option is to put aside serious money for more boring investment opportunities. Consider using professional money managers who invest in a diversified mix of equities and fixed income securities. It's boring sure, but time and time again it has proven to be the safest way to grow money over the long term.

Don't Get Spooked

The markets have ups and downs and there is nothing anyone can do about it. It's just the way it works, and in fact, down periods are very normal and often needed to keep a healthy economy going forward. The problem is market swings are impossible to accurately predict, so don't get spooked and start tinkering with your boring diversified portfolio. In fact, the only tinkering you should do is invest more money while the markets are down. Otherwise, stick to the original plan and let it work for you because in the end, tinkering usually leads to a buy high and sell low scenario.

Don't Try To Do It All By Yourself

Taking an interest in one's own investments is important but using serious money to pick stocks and actively manage your own portfolio can be a big mistake if it's not your full-time job.

Consider this scenario provided by Kira Vermond from the Globe and Mail: Someone has $5,000 to invest and spends five hours every week doing research and poring over data, trying to time the market. In the end, they earn a very respectable 11 per cent and make $578.59 that year. Not bad – unless you consider the number of hours that went into making that money: 260. That's earnings of $2.23 an hour. That's also not considering the amount of luck that went into earning 11% (which is more than often the case when timing the market) and the amount of measurable risk needed to earn that return.

With today's technology, millennials have an unprecedented level of access to information. This is both advantageous and dangerous. As much as I encourage millennials to take charge of their financial futures and do their research I also encourage them to seek the proper advice from individuals who work with this information day in and day out. After all, this is about investing serious money which, after all is said and done, leaves little room for error.

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An investor proposing to borrow for the purchase of securities should be aware that a purchase with borrowed monies involves greater risk than a purchase using cash resources only. The extent of that risk is a determination to be made by each purchaser and will vary depending on the circumstances of the purchaser and the securities purchased.

Discuss the risks associated with leveraged mutual fund purchased with an investment funds advisor before investing. Purchases are subject to suitability requirements. Using borrowed money to finance the purchase of securities involves greater risk than a purchase using cash resources only. If you borrow money to purchase securities, your responsibility to repay the loan and pay interest as required by its terms remains the same if the value of the securities purchased declines.

Investors should educate themselves regarding securities, taxation or exchange control legislation, which may affect them personally. This newsletter is for general information only and is not intended to provide specific personalized advice including, without limitation, investment, financial, legal, accounting or tax advice. Please consult an appropriate professional regarding your particular circumstances.

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