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CANACCORD Genuity
Wealth Management

In this issue: Market update, By the numbers, What to do, Chart of the week, What we are reading, Crypto Corner, Mandate of the month, Family Trusts- Financial Planning.
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What is happening? What a time to be alive: A tough news backdrop with a very positive fundamental framework. It is hard to imagine a more difficult trading environment due to worsening trade-war rhetoric, a sharp devaluation of the Chinese currency, an unsynchronized global recovery, and the President commenting on Fed policy. This news backdrop, coupled with (1) a near-term overbought condition; (2) minor near-term deterioration under the hood; and (3) a bit of complacency in sentiment and volatility, should set the stage for corrective action. That said, we believe any weakness should be temporary and used as an opportunity to add exposure given our positive fundamental core thesis.

Typically, corrections only feel natural, normal and healthy–until you get one. Given the news backdrop and unpredictable nature of the trade and Fed rhetoric, it may prove very difficult to buy into weakness fearing something more is at hand–unless you expect it. The markets may not like volatility, but active managers can use it to add risk given the fundamental backdrop of strong economic activity that is likely to generate over 20% growth in 2018 SPX operating EPS. During periods of correction, it is essential to remember the market may have Market Strategy Industry Update 23 July 2018 3 near-term movements off news flow, but ultimately SPX correlates to the direction of EPS over a cycle, and that direction should remain higher for the foreseeable future

CAN Equity (CAD)	YE 2017	Wk-end	Chg this week	Chg in 2018
S&P/TSX Comp	16209	16435	-0.8%	1.4%
S&P Total Return	54003	55624	-0.8%	3.0%
S&P TSX 60	960	976	-0.8%	1.7%
US Equity (USD)				
S&P 500	2674	2802	0.0%	4.8%
S&P Total Return	5213	5521	0.0%	5.9%
Nasdaq	6903	7820	0.6%	13.3%
Inter. Equity (USD)				
MSCI World	1586	1628	0.1%	2.6%
MSCI EAFE	2051	1985	0.6%	-3.2%
MSCI Emerg. Mkts.	60879	58631	-0.2%	-3.7%
FTSE 100 (GBP)	7699	7679	0.2%	-0.1%
DAX 30 (KR)	12918	12561	0.2%	-2.8%
Commodities (USD)				
Gold	1303	1229	-1.1%	-5.7%
Oil (Crude Brent)	$66.61	$77.09	-3.3%	9.6%

How we see it:

With more volatility, we would rather buy dips than chase ramps. Since the beginning of 2018, we expected the first half to show higher volatility coupled with periods of correction, as investors grappled with a tightening cycle and overly optimistic sentiment. We also anticipated a second half ramp to our 2018 SPX 3200 target, driven by strong EPS and reset global expectations, and see no reason to change that view. Throughout this cycle, each intermediate-term correction feels like the fundamental and tactical backdrop is at risk, only to ultimately realize that positive influences that drive our core thesis still exist. These include: 1) solid global growth; 2) positive domestic activity driving EPS; 3) capital spending improvement; 4) real household median incomes jumping with strong employment; and 5) the demographic-driven push to higher home ownership.

Discover how to use sector ETFs to balance your portfolio to a global perspective. To read further: Click here to read a global perspective from our strategist:
Click here The YTD results so far

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Chart of the Month: Banks and their Bonds…

- The credit market has been growing at a strong pace despite banks being a drag on it.
- That suggests the other participants are being more aggressive in this cycle than in the last one
- Banks have shifted from corporates to Treasuries in this cycle, helping to explain why yields have remained low

We remain in a credit-led equity bull market, similar to the 2003-2007 one. However, this one has a significant difference: instead of the banks being a major contributor to it, banks are now a drag on it.

The white line on our chart shows banks' holdings of corporate bonds going back to 1952. The 1998 Long-Term Capital Market panic seemingly encouraged the banks to go on a decade-long buying spree, as if that episode made them feel as if there was a protective Fed "put" on the corporate bond market. Banks were thus major contributors to the last credit boom. By the time the last financial crisis began in 2007, banks owned more than 26% of the US public credit market. Coming out of the financial crisis, investors forced banks to trim their holdings. In the boom, investors lent to banks at a yield below the average investment-grade corporate bond yield. Banks could thus invest the proceeds in higher-yielding corporates, leveraging up their balance sheets. After the crisis, investors charged banks an aboveaverage yield, forcing the banks to cut their holdings in the first few years of this boom. The subsequent advent of Dodd-Frank forced banks to further trim their corporate bond holdings during a credit boom that has seen explosive growth. Since the credit crisis ended, the US credit market has grown by 75% through 2017, while nominal GDP is up only 34%. The growth of credit combined with the shrinkage of bank portfolios means that banks now account for less than 7% of the credit market.

We are in the midst of an extraordinary credit boom, yet the banks have been a drag on it. That drag indicates that US public pensions, insurance companies, and the lightly regulated cash funds are being far more aggressive in this cycle than they were in the last one. That aggressiveness is responsible for the strength of the equity bull market, and means that the next financial disaster (which is most likely going to kick off in 3-5 years) has the potential to be significant. The shrinkage of banks' corporate bond holdings removed a profit center from their arsenal. The red line on our chart shows that banks have shifted their corporate bond holdings, and then some, into Treasuries. Essentially, the banks have traded credit risk for maturity risk as they play the "carry trade." This chart also helps explain why yields remain relatively low. An interesting point is that banks' holdings of Treasuries surged after yields jumped following the 2013 "Taper Tantrum." This pattern suggests that banks have the potential to be significant buyers of Treasuries if there is another rise in yields. That is an important fact to consider once the Treasury starts issuing more longer-term debt after the impact of repatriation fades. This credit-led equity bull market is very similar to the last one, with credit flows leading to stock buybacks and M&A activity. However, banks are playing a very different role in this one, allowing other participants to be more aggressive.

What we are reading:

- Canadian Food Habits. 50 years of food data distilled
- Bank of Canada Governor Poloz to rate hike: 6 months in the making
- Trump, Trade, NAFTA. Where it stands this week
- Self Employed? CMHC is working to get you a home

Crypto Corner: Whether you like it or not, you should know more and can't ignore.

- Your Coins on the big board at CoinMarketCap
- Facebook hires Director of Engineering for Blockchain
- Breakout past $7K USD for Bitcoin

Mandate of the Month: Guardian Global Fund. Balanced Fund. ($150K Min) Balanced Mandate-6.48%YTD.
This is a fee friendly managed portfolio solution. If you have a high number of **Mutual Funds or high trading costs**, it's worth a look. Strategy: This mandate is comprised of a combination of Guardian Fundamental Global Equity and Guardian Fixed Income Core mandates. The Global Equity product is a concentrated long only strategy with 20-25 high quality growth investments. Growth is achieved by investing in high quality securities that drive returns and provide protection in down markets. Quality is determined by in-depth, bottom-up analysis creating a "high confidence pool" of stocks exhibiting sustainable growth characteristics. The Fixed Income Core product mainly relies on yield curve and sector spread analysis. Analysis of current yield curves to historical averages and values will be undertaken and then an emphasis will be placed on over and underweighting improperly priced areas of the yield curve. Issuer and issue selection is based upon historical spread analyses, supply/demand conditions and trust deed and credit research. Guardian uses the PC Bond database to track the historical spreads of up to 2,000 separate issues. E-mail Steve or Drew for more details.

Investment Advisory and Financial Planning: **Family Trusts**

CASE STUDY: SHARING THE WEALTH IN THE SMITH FAMILY

Jane Smith is an Executive with a multinational corporation. Her husband John is raising their four minor children. Together, they have generated a significant amount of cash outside of their registered account (RRSP, TFSA) limits. What they want to do:

- Invest the cash and find a more tax favourable avenue to distribute the proceeds to John (lower tax bracket) and the children.
- Continue to add cash to capital base to pay for summer camp, sports, private schools
- Us the assets to eventually fund big ticket items for the children including post secondary education, weddings, home purchases, etc.

The family can establish the Smith family Trust. Once established, John and Jane can be established as the trustees, with John and the four children as beneficiaries. They would lend the trust $1MM through a prescribed rate loan, and the trust would take the proceeds of the loan and invest it in an appropriate portfolio.

ROLE OF THE FAMILY TRUST

Since most of the of the beneficiaries are minors, the trust allows Jane to execute a prescribed rate loan strategy and lend the money directly to the trust. All gains, dividends and interest are not attributable to her (high tax bracket), but to the trust itself. He will have to take interest income from the loan at 2% ($20K), and presumably pay tax of 50%+, however the trust is distributing income to those in a zero tax bracket and the savings could be considerable.

CONCLUSION

A family trust can be a be a large addition for savings to a family with the means. It allows them to pool their wealth, lower taxation across the family unit, and eventually meet estate planning objectives. Whether planning for business succession or investment wealth transfer, a trust is a far more flexible tool than most people realize.

How does Financial Planning make a difference for you? Financial Planning is a tool that everyone needs to be using in their investment strategy. If you aren't planning with a complete overview with your manager, you are leaving strategy to chance, with no strategy at all. Good ideas to grow your portfolio are always available, by adjusting risk and knowing your situation in all situations: retirement, home and business purchases/sales, children coming in to the world or sent to University, helping them buy a house/business all play a part. According to the Financial Planning Standards Council (FPSC), 81% of Canadians with comprehensive financial plans feel on track with their affairs versus 73% with limited and 44% with no planning. Click here for an introduction to Mike and take a look below for an example of how he makes a difference for clients. Click here for a full overview on our financial planning services

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