

# Your Wealth. Our Commitment.

CANACCORD Genuity  
Wealth Management

**In this issue: Market update, By the numbers, What to do, Chart of the week, What are we reading (Politics and gold, US Employment, Can/US Tariffs), Crypto Corner, Idea of the week (CSW.A), RESP's.**  
For a printer friendly version of the newsletter [click here](#)

## What is happening?

Investors are being tossed around by headlines and are trying to make up their minds before the next big move in equities. The net result is market choppiness until some concerns dissipate. Italy has been a concern all week as risks remain on how the national debt situation will be taken care of. Will it be Brussels' way or the populists' way? Italian jitters have compounded the US\$ appreciation. Market jitters are such that bond yields caught a bid with US 10-year Treasury yields dropping as low as 2.76% before rebounding to their 50-dma ~2.90%. The CDN\$ was all over the place, strengthening earlier this week on hawkish BoC comments hinting to a July hike. However, President Trump's decision to go ahead with tariffs on steel and aluminum imports sent the Loonie back down to ~77 cents.

Regarding economic statistics this week, in Canada, the BoC kept its benchmark rate unchanged. Also, we learned that the Canadian economy grew at a 1.3% QoQ annualized rate in Q1. Soft consumer spending and a marked trade balance deficit contributed to the weaker-than-expected GDP print at 1.8%. But despite a slow start of the year and heightened trade tensions, a July rate hike remains on the table with odds at 75% that the BoC will strike according to Bloomberg.



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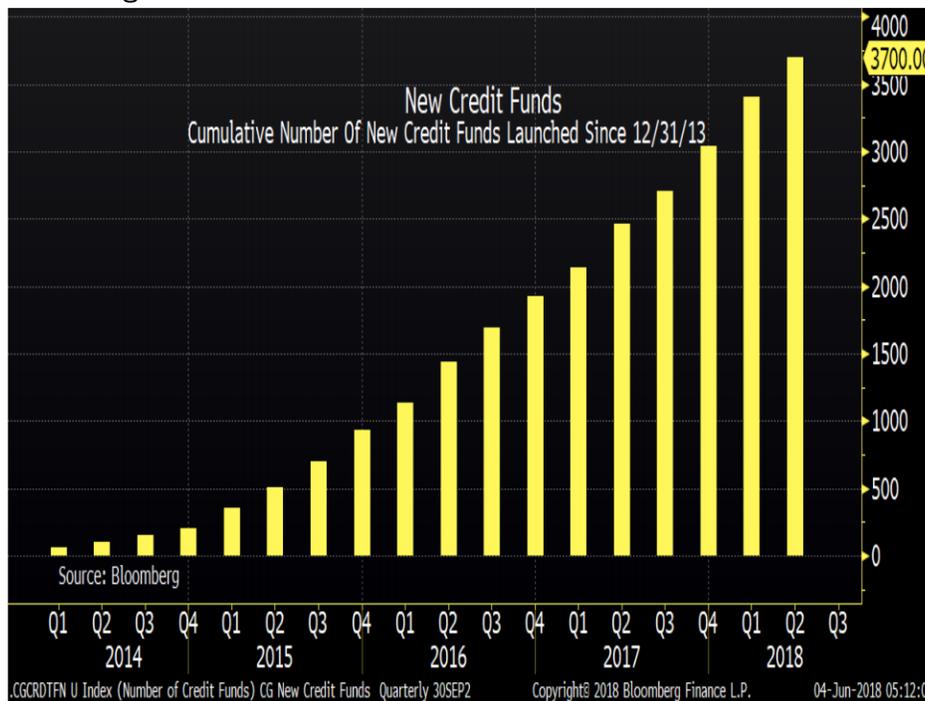
<u>CAN Equity (CAD)</u>	YE 2017	Wk-end	Chg this week	Chg in 2018
S&P/TSX Comp	16209	16044	-0.2%	-1.0%
S&P Total Return	54003	54091	-0.1%	0.2%
S&P TSX 60	960	949	-0.4%	-1.2%
<u>US Equity (USD)</u>				
S&P 500	2674	2735	0.5%	2.3%
S&P Total Return	5213	5376	0.5%	3.1%
Nasdaq	6903	7434	1.6%	9.4%
<u>Inter. Equity (USD)</u>				
MSCI World	1586	1599	-0.1%	0.8%
MSCI EAFE	2051	1992	-1.1%	-2.8%
MSCI Emerg. Mkts.	60879	61267	-0.5%	-0.3%
FTSE 100 (GBP)	7699	7702	-0.4%	0.2%
DAX 30 (KR)	12918	12724	-1.7%	-1.5%
<u>Commodities (USD)</u>				
Gold	1303	1298	-0.4%	-0.4%
Oil (Crude Brent)	\$66.61	\$76.54	0.1%	14.9%

## What to do?

Asset mix – a pause before a final lift-off? As sector rotators, we understand that once late cyclicals have completed their cycle, the next rotation is into defensive areas of the market. This rotation usually occurs around cyclical market peaks shortly before recessions unfold. However, our forward-looking economic indicators do not point to a hard-landing before 2020. Therefore, this leaves market-based variables as the potential culprits for the next recession. We calculated that the mix of US 10-year Treasury yields climbing above 3.25%, oil prices above \$75/bbl and the DXY above 95 would bring our reflation index into the tightening zone. The last three recessions were preceded by a jump of our index into that zone. Fortunately, the recent relapse in bond yields and oil prices is buying investors some time. Otherwise, since February lows, equities have been tracking the historical script from the 10%-correction mark quite closely. The good news is that if this roadmap is any guide, near-term market choppiness should be followed by an impressive equity rally in H2/18. The bad news is that this lift-off could be the last hurrah before stocks enter a bear market in “time” or in “price”. The outcome will depend where bond yields, oil, the US\$ and Fed funds settle once late cyclicals have completed their relative price cycle.

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

**Chart of the Week:** The emergence of new Credit Funds.



From 2014-2017, an average of 750 new credit funds were launched per year. This year, the number of new credit fund launches is on pace to top 1500! This pension shift is likely going to lead to an increase in the risk-taking behavior of active fixed-income credit managers. The credit market has grown 75% since the 2007 financial crisis ended, while nominal GDP is only up 34% over that time. Thus, the incredible leveraging of our economy has produced plenty of assets for credit managers. However, the number of competitors has accelerated, and pensions are increasingly focusing on the most aggressive credit sectors on the advice of their consultants. As credit has traditionally been sold to customers based on yield, the increased competition is likely going to prompt an increasing number of credit managers to push for yield

**What are we reading:**

- [Politics doesn't move Gold like it used to. Are investors becoming geopolitically apathetic?](#)
- [The last time US unemployment hit 3.8%, Woodstock was happening, man.](#)
- [Trudeau hits back on US Tariffs](#)
- [List of items that will have applied tariffs](#)
- [Read about reading. Bill Gates does it.](#)

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

- [Your Coins on the big board at Coindesk](#)
- [Centralized versus Decentralized Exchanges](#)
- [Marshall Islands, leading the charge, or too far ahead of themselves. Drop USD for National Crypto](#)

**Idea of the Month: Corby Spirit and Wine Ltd.** (CSW.A \$20.10)

CSW is a leading Canadian marketer and distributor of spirits and imported wines. With approximately 21% of spirits sales in Canada, Corby's premium portfolio includes many of the top-selling brands in Canada. They operate the production and distribution of their wholly owned brands (J.P. Wisers, Lamb's Rum, Polar Vodka, McGuinness Liqueurs, Ungava Gin) and Canadian distribution (through partnership with Pernod Ricard) for major brands like Absolut Vodka, Chivas Regal, Glenlivet and Ballatines Scotch whiskies, Jameson Irish whisky, Beefeater gin, Malibu rum, Kahlua liquer, Mumm Champagne, and Jacobs Creek/George Wyndham wines.

Corby's currently has no debt, \$65MM in cash and yields 4.35%. Contact [Steve](#) or [Drew](#) for more details.

**Investment Advisory and Financial Planning: RESP's- there is more than one way to skin this cat!**

It's no secret that the cost of Post Secondary education in Canada (the world for that matter) is rising. It's more imperative now than ever to start making smart choices to plan for this ahead of time using RESP's (Registered Education Savings Plans).

An RESP is a tax-sheltered investment plan. Unlike a Registered Retirement Savings Plan (RRSP), the contributions are not tax deductible, however, the investment growth compounds tax-free until withdrawn, and as well, the contributions can be returned to you as the subscriber without tax consequences. The remainder goes to the beneficiary (e.g. a child or grandchild) and is taxable to them as income when it's withdrawn for a post-secondary educational program. In other words, it's only the growth and any government grants that would be taxable in the hands of the beneficiary. The lifetime contribution limit on all RESPs is \$50,000 per beneficiary, which is in addition to the Canada Education Savings Grant (CESG) limit of \$7,200.1 The CESG is paid into an RESP at a rate of 20 per cent of your contributions, up to an eligible annual maximum contribution limit of \$2,500, of CESG or up to \$500 per year in CESG funding.

Below we illustrate two alternate options (Option1/2) for the RESPs of our next generation beyond the usual (option 3) of \$2500/yr. to maximize \$500 of CESG limits per year. As you can see, this adds significant assets to the child's college nest egg, allowing for the possibility of exchange, post grad, or possibly studying abroad at an institution that charges more than our own. See the three charts below for details.

**OPTION 1 - \$50,000 RESP DEPOSIT**

Under this option, Joe and Wanda deposit the entire \$50,000 into an RESP in year one and receive the \$500 maximum CESG for that year only.

**OPTION 2 - \$16,500 RESP DEPOSIT WITH SUBSEQUENT ANNUAL CONTRIBUTIONS**

Under this option, Joe and Wanda deposit \$16,500 into an RESP in year one, \$2,500 in years 2 through 14 and \$1,000 in year 15 in order to generate the maximum CESG each year. These annual deposits are funded by investing the remaining \$33,500 in a non-registered investment in year one and withdrawing the annual RESP deposits from this investment.

Annual rate of return					6%
Taxable portion of return (non-registered)					20%
Tax rate on investment income (non-registered)					25%
	<b>Option 1</b>		<b>Option 2</b>		
<b>Deposits</b>	RESP	CESG	RESP	CESG	
<b>Year 1</b>	\$50,000	\$500	\$16,500	\$500	
<b>Year 2-14</b>	-	-	\$32,500	\$6,500	
<b>Year 15</b>	-	-	\$1,000	\$200	
<b>Total</b>	<b>\$50,000</b>	<b>\$500</b>	<b>\$50,000</b>	<b>\$7,200</b>	
* For illustration purposes only.					
<b>What it looks like at year 18:</b>					
	<b>Option 1</b>		<b>Option 2</b>		
<b>RESP</b>	\$144,144		\$125,844		
<b>Non-registered investment</b>	-		\$29,816 <sup>1</sup>		
<b>Total</b>	<b>\$144,144</b>		<b>\$155,661</b>		

Option #3	Child Age	Grant	Contribution	Year end total
	0	500	2500	\$ 3,180
	1	500	2500	\$ 6,551
	2	500	2500	\$ 10,124
	3	500	2500	\$ 13,911
	4	500	2500	\$ 17,926
	5	500	2500	\$ 22,182
	6	500	2500	\$ 26,692
	7	500	2500	\$ 31,474
	8	500	2500	\$ 36,542
	9	500	2500	\$ 41,915
	10	500	2500	\$ 47,610
	11	500	2500	\$ 53,646
	12	500	2500	\$ 60,045
	13	500	2500	\$ 66,828
	14	200	2500	\$ 73,700
	15		2500	\$ 80,772
	16		2500	\$ 88,268
	17		2500	\$ 96,214
<b>Total</b>		<b>7200</b>	<b>45000</b>	

**\*Please let us know if you think there is someone in your network who would benefit from this note. We are always happy to include them on the list. You are our best source of referrals.**

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