Market Update: May 17, 2016. Intra-year declines, Diversification, Local Real Estate Values, and interest rate outlooks.

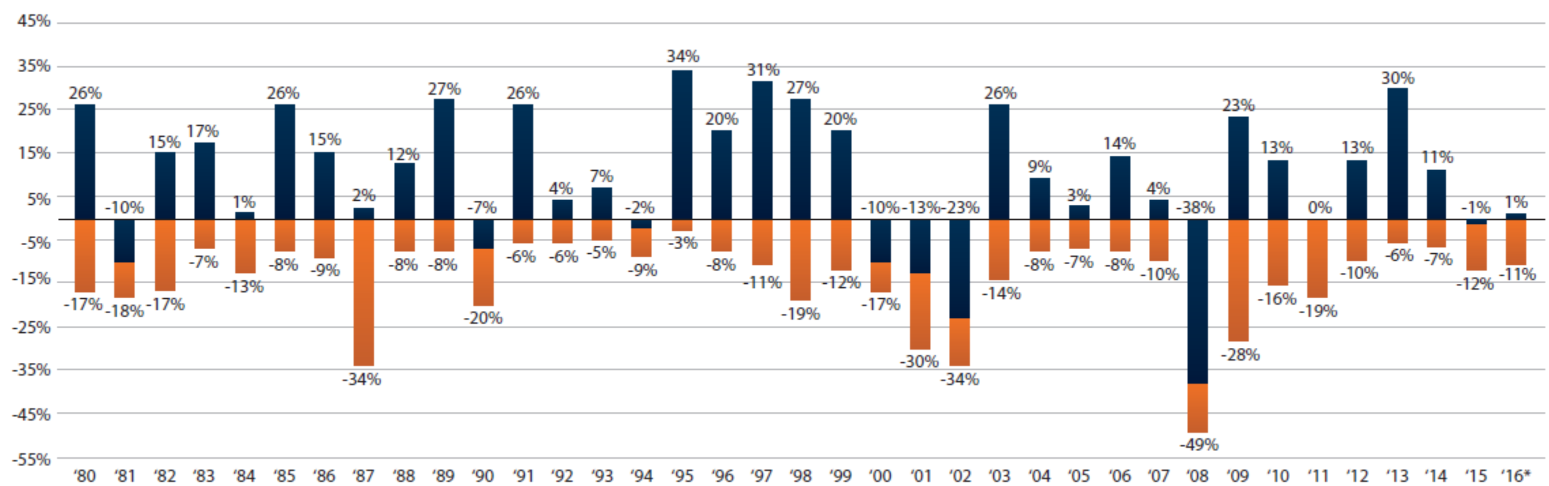
Hello clients and friends,

Since we haven't had a market update in some time, this one is rather lengthy; however I know you will enjoy it. We have randomly picked the winners from our last email contest and will be in touch with those people shortly. Thank you for your feedback and comments. We will be running another one in the next couple months so stay tuned.

The first couple months of this year were unsettling to say the least, and in fact some of the worst starting 2 months in the history of the markets from what I can tell. The flip side to this is March and April were some of the best months of the market ever. I was given this chart from my contact at First Trust I would like to share with you. Each year be it a single stock or the market in general will retract from its all-time high at some point, this is normal, albeit sometimes uncomfortable when it happens. The following chart shows the intra-year draw down from the peaks of the S&P500.

Intra-Year Declines vs. Calendar Year Returns

Volatility is not a recent phenomenon. Each year, one can expect the market to experience a significant correction, which has averaged approximately 14% since 1980. Although past performance is no guarantee of future results, history has shown that those who chose to stay the course were rewarded for their patience more often than not.

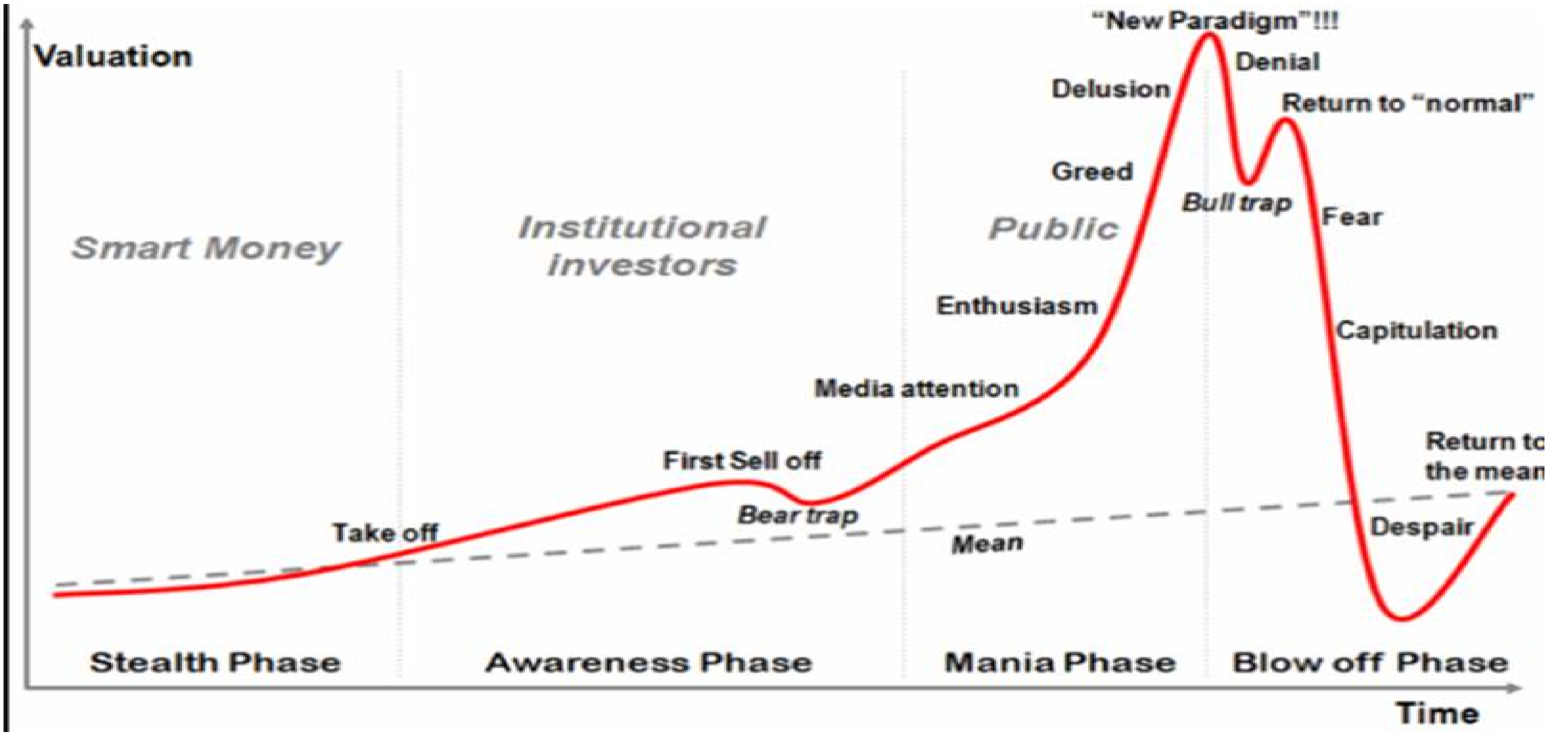


*YTD through 3/31/16.

Source: First Trust Advisors L.P., Bloomberg. The benchmark used for the above chart is the S&P 500 Index. The S&P 500 Index is an unmanaged index of 500 stocks used to measure large-cap U.S. stock market performance. Investors cannot invest directly in an index. Index returns do not reflect any fees, expenses, or sales charges. Returns are based on price only and do not include dividends. This chart is for illustrative purposes only and not indicative of any actual investment. These returns were the result of certain market factors and events which may not be repeated in the future. Past performance is no guarantee of future results.

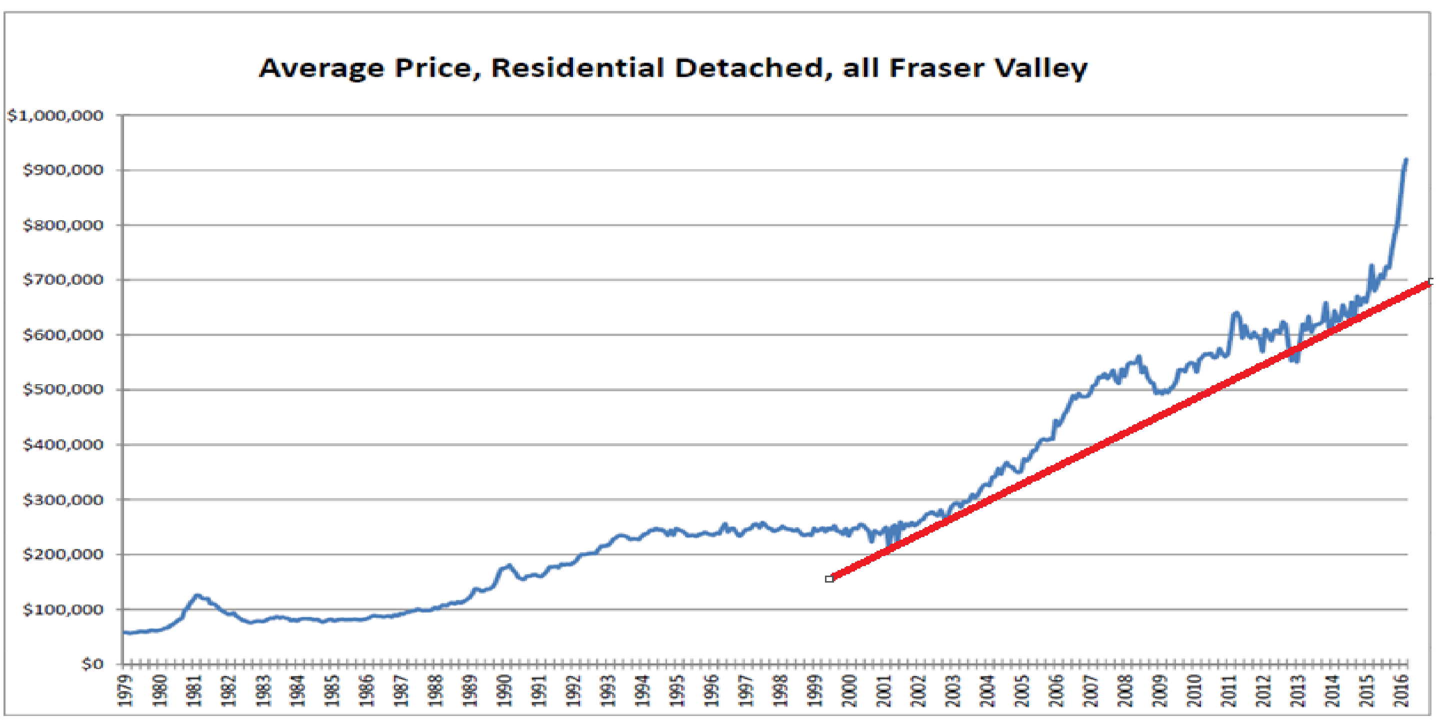
This also comes to my reason for diversification. I did a review of my family investment holdings. We currently have 60 different positions in our portfolios. This is a mix of Stocks, Mutual Funds, ETFs, and options. There is a range of stocks from the small speculative stocks (<5%) of the portfolio, to the large well established dividend paying companies. We hold mutual funds and ETFs that have better access and unique strategies we just can't do at a personal account level (Hedge funds, Seasonal Rotation, Options). I give this example and will relate it to golfing; one can carry up to 14 clubs in their golf bag. If I head out for a round of golf I'm best to have different clubs in my bag, certainly I could carry a single club or only a few, but I am putting my game at risk if I carry too few. A driver is not going to help me get out of the sand, nor a putter out of the rough. This is why diversification is important for a steady consistent golf game. Hence why I want clients to own at least 20 different companies and positions, so that their portfolio is diversified enough that if one single entity has a blip it won't decimate a portfolio.

On to local real estate values, which everyone is talking about and has an opinion on. Here is a good chart showing the market emotions around a bubble market. Personally I would say we are past the media attention phase, into the greed, and delusion phase. We are hearing of multiple no-condition offers, highest offer + $100,000 cases. We have seen this type of market spike with public companies, stock markets, tulip bulbs, and now real estate. Granted they are all different markets, and everyone may have an opinion why it could go higher or lower, these are just my thoughts.



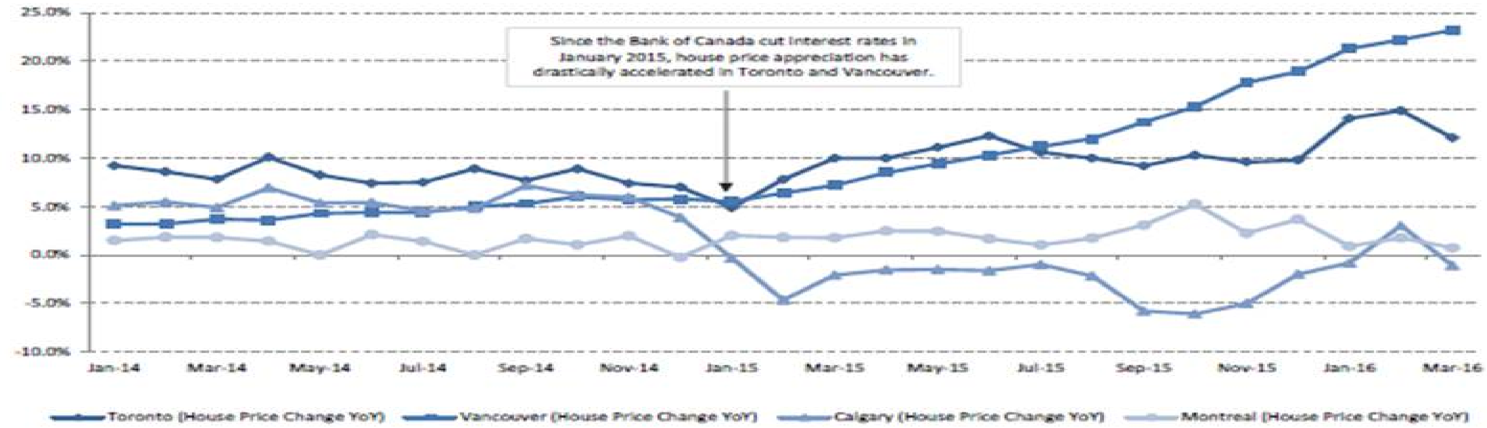
We have seen a significant spike in values in the last 6-18 months. I pulled this chart from the Fraser Valley Real Estate Board, showing the dramatic rise in detached prices in the Fraser Valley. The most recent statistics package from the FVREB is available here: http://www.fvreb.bc.ca/statistics/Package%20201603.pdf. I suggest it is worth looking at the charts, we haven't seen a sellers' market like this as far as the FVREB has seen. I sent one of the charts to our Technical Analyst in the US, Bob Dickey. These were his comments:

"Those are easy charts. They are all parabolic, which means that once they top and break, the fall will be as fast as or faster than the way up, and they will return to the longer-term rising trend line. You can't call the top before it happens, but you can run away quickly once it happens." The modern trend line is shown on the chart below. We should be in the 700K range, not the over $900K range.



This is a research paper from our RBC Capital Markets group on the comparison of Canadian Real Estate Values to the US market book of the 2000's. Something to be aware of….there may be some more room to run, but how much?

Exhibit 104: We are concerned about the level of recent real estate price appreciation in Toronto and Vancouver



Source: RBC Capital Markets, Real Estate Boards of Each City

Exhibit 105: Price appreciation in Toronto and Vancouver appear to be following a similar trajectory as in the US pre-crisis

Source: RBC Capital Markets, Real Estate Boards of Each City, Bloomberg

From our bond desk, I get this report each morning, and this is the current probabilities of an interest rate changes in Canada and the US based on the futures market for interest rates:

<u>Implied Probabilities</u>

Canada

Meeting	Prob Of Hike	Prob of Cut	
05/25/2016	0.00%	4.6%	(14.2% chance of a **cut** in 2016)

US

Meeting	Prob Of Hike	Prob of Cut	
06/15/2016	6.0%	0.0%	(51.7% chance of a **hike** in 2016)

Have an excellent week.

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We accept new clients primarily by referral from our existing clients. We would be pleased to speak with anyone you know who would like a second opinion on their investments.