

# Clarke Wealth Management's Quarterly Newsletter



Views and opinions  
for the clients and friends of

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## On Balance Getting Better

In what has become a highly unsynchronized world, there are several factors at play that are setting the landscape for most equity markets.

### World's Best Customer in Great Shape

The first and most important factor is the transition of the U.S. economy to a self-sustaining expansion which, in our opinion, has been in place since early last year. West Coast port strikes, severe weather, and the collapse of oil prices are all taking a toll. But the main underpinning to the economic outlook, the American consumer, is employed, confident, and in the best financial shape in many years. CEO confidence is elevated. The banking system is sound and increasingly interested in making loans to credit-worthy borrowers.

The U.S., by far the world's largest economy, imports nearly \$3T of goods and services each year. That total is growing despite the 50% (by volume) drop in oil imports over the past decade. Growing American demand is of considerable benefit to Canada and Mexico, to China and the rest of Asia, and, to a lesser extent, Europe.

### Energy Recovery Not Yet in Sight

Despite much lower prices, world oil production continues to rise, suggesting a weak price regime may be with us for some time. Many producing countries finance their fiscal budgets with oil revenues while production growth in Russia, Brazil, and the U.S. shale plays has been financed to a great degree by debt, which needs to be serviced. While



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## On Balance Getting Better (Continued..)

production will eventually decline in the wake of sharp reductions in drilling activity, it will likely take some time for surpluses to clear and the market to reach balance.

On balance, falling energy prices are net stimulative for many economies—the U.S., China, Japan, Europe, and India among them—acting as a de facto tax cut for consumers while lowering costs for most businesses and subsidy burdens for governments.

### China Slowdown Has Further to Run

Meanwhile, the ongoing unwinding of imbalances in China's economy is taking longer than anyone, including the Chinese, anticipated. Although the government has embarked on a programme of monetary easing, any growth response from the economy is likely a year or more away. This will keep pressure on industrial commodity prices and a lid on global inflation rates.

### Europe's Outlook Is Improving

Regional activity indexes (PMIs) have been ticking higher for a number of months (although not for every country), inducing forecasters to raise their 2015 and 2016 GDP estimates. Tellingly, Ireland and Spain have been among the best-performing national economies. Confirmation that things are improving and at the same time a powerful reason to be more optimistic is the fact that Eurozone banks' loans to the private sector have grown four months running after contracting for two full years.

European politics, however, is becoming more fractious and risky. In Britain, the May general election looks to be an electoral jump ball with the probabilities favouring no clear winner and maybe no clear coalition. An in/out referendum on European Union membership, as promised by U.K. Prime Minister David Cameron, may well be

the result, which we believe would be bad news for what has been the region's strongest economy.

### Equity Investors Are Focused Elsewhere

The U.S. equity market has been able to set a series of new all-time highs in response to a solid economic/earnings outlook. Valuations are no longer cheap but remain reasonable, in our view. European and British markets have also posted new all-time highs, while China and Japan have set new multiyear marks.

Even the Canadian market is within a few percentage points of an all-time high, despite a 25% slump in the important oil and gas index, as well as a 10% sympathetic pullback for the heavyweight bank sector.

### Regional Highlights United States

The U.S. market has traded sideways since October as crude oil collapsed, the dollar surged, and economic momentum eased. Over the same interval, 2015 earnings estimates declined sharply due mostly to oil's impact on the energy sector and dollar headwinds. Even though the market has barely budged since then, the S&P 500's forward price-to-earnings (P/E) ratio increased to 17.1x from 14.6x based on 2015 consensus estimates. That's not overly expensive, but at that level, probabilities favor only mid-single-digit annual returns.

### Continental Europe & U.K.

European markets extended their gains in local currency terms, buoyed by the start of the ECB's QE programme and superior earnings momentum in the region thanks to a weaker currency.

Favouring exporters and dollar earners worked well with many of these stocks driving performance. However, in the short term, given the speed of the euro devaluation, we would expect these

stocks to consolidate. We would also suggest long-term investors add selectively to lower-valued companies exposed to the burgeoning recovery in Europe.

In the U.K., the FTSE 100 reached an all-time high thanks to the strong economic recovery and comparatively attractive yield this market offers. With the looming general election bringing an unprecedented level of uncertainty, we would reduce positions in politically sensitive sectors, such as utilities and banks.

### Asia

The MSCI Asia ex-Japan Index rallied further in March and is up close to 8% in 2015. The bull market in Chinese stocks, which constitute approximately one-quarter of the index, has contributed, as have lower energy prices. The Shanghai Composite rose 11% in March, reaching pre-global financial crisis levels for the first time. Chinese equities have benefited from a number of supportive policy measures since summer 2014. In March, the government announced a new debt-swap plan, designed to restructure the way local governments raise funds. The initiative should reduce financing risks and costs. It is the first step in addressing a situation that has concerned investors for a number of years.

Japan's TOPIX Index continued its run in March, reaching a new cycle-high. The index remains well below its highest level of 2007 despite a similar level of index earnings. A surprising element of this year's rally has been the stability of the yen, which is a good sign, in our view.



# Fidelity American Equity Fund

We have recently changed our line-up of mutual funds with the Fidelity American Equity Class Fund being one of the most recent additions. This fund is a core U.S. equity fund, in which the portfolio manager seeks to invest in high-quality U.S. Companies, and typically holds between 30 and 40 stocks. The fund employs a blend between Growth & Value style investing, focusing on Mid to Large Cap stocks across a broad range of sectors. The top three sectors are: Health Care, Financials & Consumer Discretionary.

## About the Manager

Steve MacMillan is a portfolio manager with Fidelity Investments and manages Fidelity Small Cap American Fund and Fidelity American Equity Fund. Steve joined Fidelity in 2008 as a research analyst responsible for analyzing and recommending securities in the banking and diversified financial sectors.

Prior to joining Fidelity, Steve was a portfolio manager for KBSH Capital Management. His responsibilities included managing small-cap portfolios, focusing on equities in the U.S and North America.

Steve earned a BBA from Wilfrid Laurier University and is a Chartered Financial Analyst charterholder.

## Why we like it

The U.S. is in the midst of a long-term bull market, according to RBC Capital Market's analysts. Since 2011 U.S. GDP has been growing at roughly 2% per annum. Over the same period the private sector has grown around 3.2%. Government spending is no longer shrinking, so overall GDP growth should increase as long as the private sector can maintain this pace.

Health care has some long-term catalysts behind it due to biopharmaceutical and technological advance-

ments and also the aging of the baby boomers. RBC Capital Markets currently favour large-cap companies because their relative valuations are more attractive, small-cap P/E ratios are sky high in their minds.

With a Morning Star rating of 5 stars (5 being the highest) over the past 3 years, and 3 stars over the past 10 years, the fund has had average to high returns over the same time period. Although past performance is not indicative of future performance, it still has had a decent track record in our evaluations.

Our Investment thesis is based on a growing U.S. economy, coupled with the affects this growth could have on Health Care and various other sectors. We like the growth & value investment style, as it will allow us to participate in "discounted" market segments while capitalizing on potential future growth in cash flows.

# Things to do in White Rock

Despite having moved from the 152nd and 16th ave location our office is still referred to as the White Rock Dominion Securities, and we're pretty fond of the area.

## Water Activities

The beach is the main attraction, whether it's for a picnic, a walk along the pier, or if you're not the faint of heart a swim in the cool water. In the summer you will often find people fishing, crabbing and even jumping off the end of the pier. If you're interested in kayaking Natural West Coast Adventures offers instructions and rentals for novice and experienced paddlers.

## Shopping & Dining

Marine Drive is lined with restaurant patios offering a wide variety of cuisine. Fish'n & chips is a beach staple and if you haven't ventured down to the

beach before we'd recommend Moby Dick's. If you're looking for a good steak or some chilled oysters we'd strongly suggest the Pearl. Or if it's that cool pint you're after try out Jimmy Flynn's, a cosy celtic snug that boasts a variety of Irish and local brew.

Nestled in between these restaurants are small shops and specialty boutiques. You can find everything from beachwear to books to native art.

## Golf

There are more than a dozen courses in and around White Rock. Hazelmere Golf & Tennis Club is the first that comes to mind. Established in 1962, Hazelmere is a tournament course located right next to the U.S. border and this is a 5 minute drive from White Rock beach.

The Golf course aside, Hazelmere has a wonderful clubhouse featuring an

elegant dining experience and is famous for its award-winning Sunday brunch.

## Festival & Events

August 1, 2 & 3 White Rock will be celebrating its 65th anniversary. There will be: all day Live Entertainment, Kids Activities, Food Vendors, Marketplace Fireworks, a Torchlight Parade and much more.

Friday, July 17th cyclists will be engaging grueling 130 km race known as the Tour de White Rock. If you're a cyclist enthusiast come out and cheer on the racers!

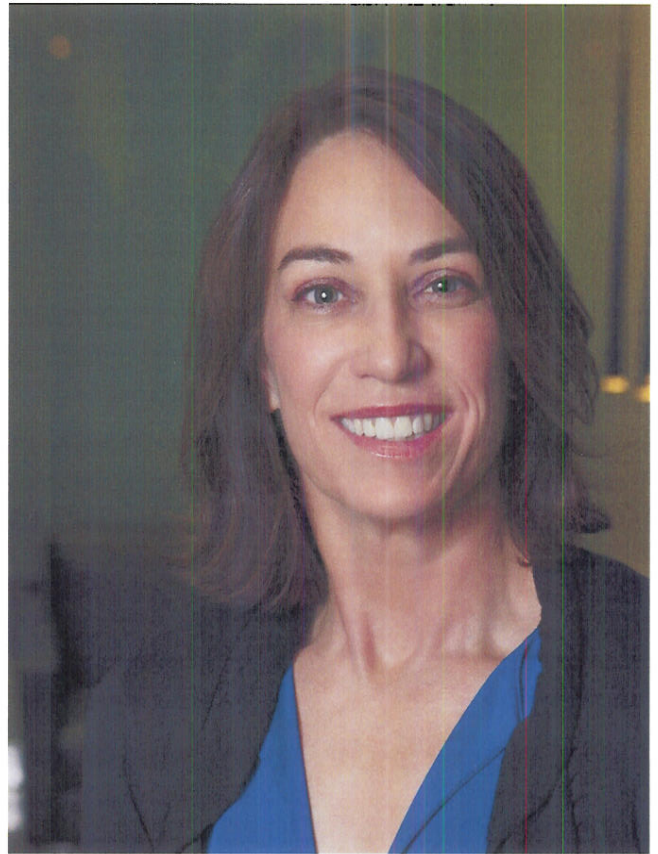


## A Change in Leadership but our Values and Expertise Remain

Heather has acquired considerable experience in Wealth Management, financial planning and providing sound investment advice – a career that began in 1979 when she joined RBC Royal Bank. Over the years she has built an excellent reputation based on the simple foundation of providing customer service and placing her client's best interests ahead of everything else.

Heather calls Langley home, where she lives with her husband and raised her three children. For more than 25 years she has been involved in the community. Although they are now all grown you will still see Heather cheering on her children lacrosse and soccer games on the weekend.

Heather is currently involved in supporting Canadian Kidney Foundation, Soroptimists of the Langleys; a service club dedicated to working to improve the lives of women and girls; and the Ride to Conquer Cancer. She spends her free time learning to golf, traveling and challenging herself each year towards a fitness goal; but Heather's true passion is her family.



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