

THE STANTON REPORT

Fall 2015

*Views and opinions for
the friends and clients
of Investment Advisor
Richard Stanton*

RICHARD STANTON
Vice President & Portfolio Manager
richard.stanton@rbc.com

TRACY DYKENS
Associate
tracy.dykens@rbc.com

RBC DOMINION SECURITIES

1106 Main Street, PO Box 910
Smithers, BC V0J 2N0

Smithers: (250) 847-6666
Terrace: (250) 635-8888
Fax: (250) 847-6667
Toll-free: 1 (888) 834-3311
www.thestantongroup.ca

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(250) 847-6680. Please contact
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A Word from Richard

I hope everyone enjoyed their summer although it was pretty wet in the North for the month of August.

First off, we need to acknowledge that the market this last quarter has been the worst in 4 years. During times like this it is natural and common to question if you are properly positioned. Please remember that periods like this have occurred many times before and will continue to occur in the future. Hopefully you can take comfort in the fact that in the last 100 years (1915 – 2014) the market has been positive 74% of the time. Please read my piece “Uncommon Sense” on pages 2-3 for more insight.

The Rotary Celebrity Golf Tournament this year was very successful and raised \$120,000 for the BV Health Foundation to renovate the maternity ward at the BV Hospital. Our other event this summer as usual was our food booth at the Fall Fair. Unfortunately, attendance was down this year due to the inclement weather and as such we only broke even. The next event is the Radio Auction in November so we are hoping that it goes well.

Fall means back to school. This year Olivia started Grade 10 and Jenelle is in now in grade 7. Olivia will be busy this year with piano, dance and karate. Jenelle is going full throttle with her dancing, and now works as a teacher's assistant to the really young ones on Saturdays.

As usual, if you would like to get together to review your account, either in person or via a telephone appointment please contact either Tracy or myself.

Thanks for reading and have a great fall.

Here is what has happened year-to-date;

- › S&P/TSX Composite Index -7.0%
- › Dow Jones Industrial Average -7.0%
- › MSCI World Index -3.6%
- › Crude Oil -15.4%
- › Natural Gas -12.6%
- › Gold -5.9%
- › Silver -7.5%



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UNCOMMON SENSE

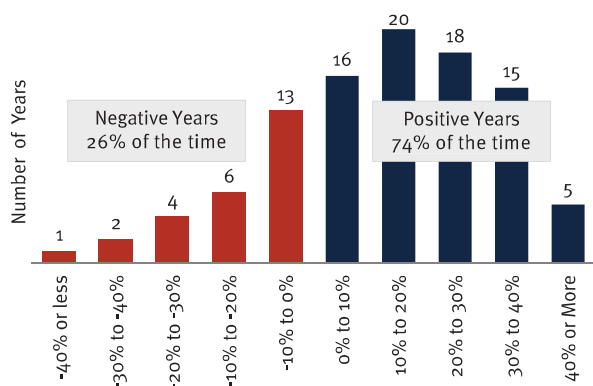
This summer's upheaval in stock markets around the world brought talk of a market collapse back to the fore. But this line of thought seemed off-kilter to us. So we decided to take a deeper look at how often and why bad years really happen. What we found will probably surprise you.

Over the past couple of years, we have dealt with the issue of market corrections and secular bull markets. This month, we are dealing with some common misconceptions about how the stock market typically performs and just how rare bad years (especially really bad ones) are when the U.S. economy is growing.

A NEAT CHART ON MARKET PERFORMANCE

If we look back over 100 years of market performance (1915 – 2014) we can start to get a pretty good sense as to how the market performs (see chart).

S&P 500 Total Return (1915–2014)



Source - *Irrational Exuberance*, Princeton University Press, 2000, 2005, 2015; Bloomberg, RBC Wealth Management

So what are we looking at? Going back 100 years, the stock market has had 74 positive years and 26 negative years. Of those negative years, one-half (13) have ranged between 0% and 10%, while seven have seen losses of more than 20%. Think about that for a moment.

While we spend an awful lot of time worrying about market collapses, if we define a collapse as a loss of 20% or more, they happen about 7% of the time or about once every 15 years. And that's if you start in 1915. If you start in 1945 (we'll call this "the modern era"), the number of 20% down years would drop to three, meaning since the beginning of the Modern Era, big down years have occurred about 4% of the time or roughly once every quarter-century. One other note, every one of these big down years has been associated with a U.S. recession, so

getting the recession call right is of paramount importance.

Again, let's consider that for a moment - over the past 100 years, when the U.S. economy has been growing and the U.S. has not been embroiled in a world war, the S&P 500 experienced only two years in which the market declined more than 10%

RECESSION RISKS

Considering the importance of recessions to market performance, we always keep an eye on recession risks and various indicators, which can often give reliable signals when those risks are rising.

Every month, RBC Capital Markets Chief U.S. Market Strategist Jonathan Golub publishes a recession scorecard that focusses on some of the key indicators. These indicators, which include the shape of the yield curve, the ISM Manufacturing Index, and Housing Starts among others are all either pointing toward continued growth in the U.S. economy over the next 12 months or are giving a "neutral signal" None at present are indicating heightened recession risks. On the flip side, up years tend to be roughly evenly distributed across 0%-10%, 10%-20%, 20%-30%, and 30%-40%. Most market forecasters will predict at the start of the year, "I expect the market to rise [7%-10%, or so]," which is not far off the average growth of earnings over time. In fact, this rarely happens with 0%-10% years occurring only 16% of the time. In fact, years in which the market rises 10%-20% and 20%-30% are more common than years in which the market rises than years in which the market rises 0%-10% and years in which the market rises 30%-40% are almost as common (15 s. 16)

LOOKING AT A YEARLY BREAKDOWN

There are a number of ways to present the data on market performance. In the chart below, we look at the same data as in the previous chart, except now we actually can see which years delivered good and bad performance.

RECESSIONS MATTER

Over the past 100 years, the U.S. has been in recession for roughly one in every five years, although over the past three decades, as the economy has transitioned from more manufacturing-based to more services-based, this has stretched to closer to one in 10.

Recessions matter an awful lot to market performance with most down years associated with years that experienced some level of contraction in U.S. economic activity. With that in mind, the chart on the following page takes out all years in which the market was impacted by a recession.

We are left with 78 years of data with 11 (14%) generating a negative total return (ironically, should the S&P 500 fail to rally into year-end, 2015 could be just such a year). Of the 11 remaining down years, only four experienced a loss of greater than 10% with two of these -1917 and 1941 - occurring during world wars

This view jibes with that of the St. Louis Federal Reserve which publishes a recession probability indicator. This indicator, which has been shown to provide a reasonable assessment of recession risks over the ensuing six-nine months, is currently predicting a less-than-1% chance of a U.S. recession.

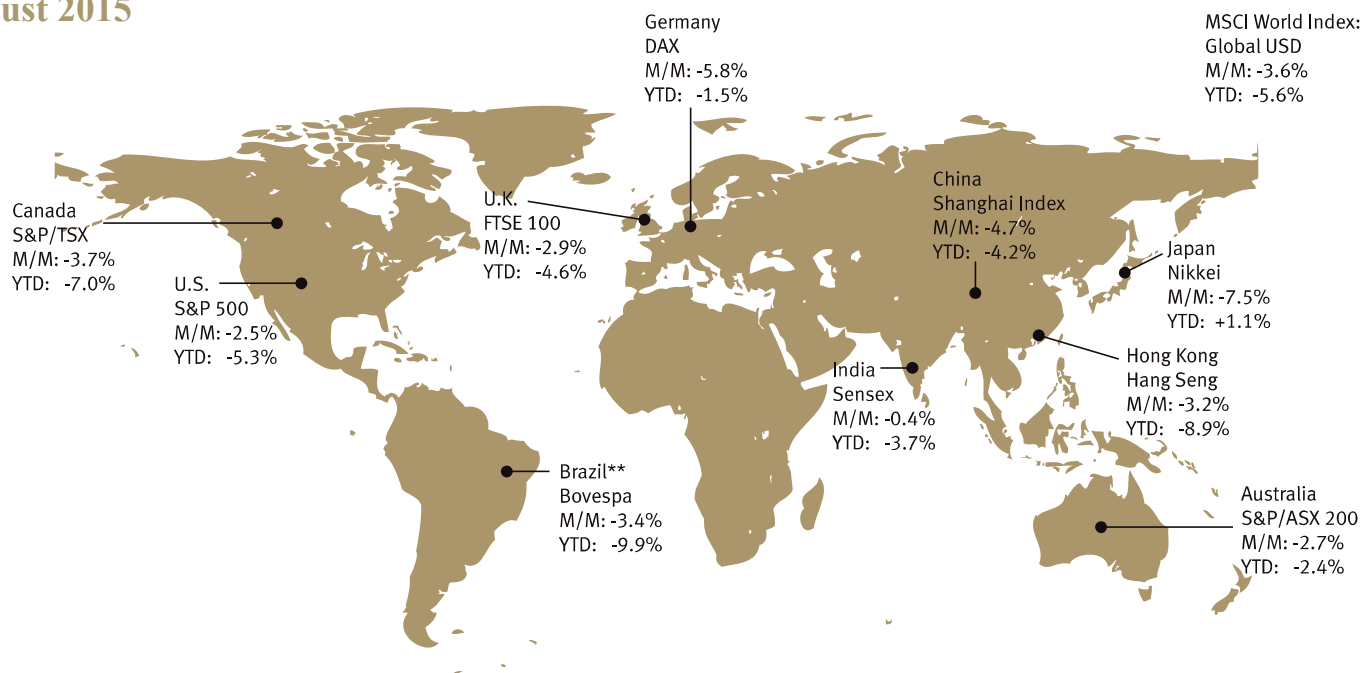
has been growing and the U.S. has not been embroiled in a world war, the S&P 500 experienced only two years in which the market declined more than 10%.

CONCLUSION

We would remind investors that past performance is not necessarily predictive of future returns and thus it is possible that what the past 100 years has mapped out for us in terms of market performance may not presage what the next 100 years or even the next year might offer. That said, if we look back over the past century, we can conclude that up years have been far more common than down years and really good years are far more common than really bad years. Furthermore, when the U.S. economy is expanding as it is now and as we expect to in 2016, the market has generated a positive return about 85% of the time and a return of greater than 10% almost 70% of the time.

World Markets

August 2015



All returns are on a total return basis unless otherwise noted
 All returns calculated in local currency except for MSCI World
 ** These indices are calculated on a price return basis
 Source: Bloomberg

2015 REPORT CARD

POSITIVE DEVELOPMENTS:

- Greece tentatively rescued; overdue loans paid and banks reopened
- U.S. Q1 GDP revised upward; Q2 GDP fine
- Bank of Canada eases on disappointing growth
- Trans-pacific trade deal nears finish line
- Global leading indicators still consistent with economic growth
- Low commodity prices and interest rates are good for global growth
- Improved equity valuations
- Another round of global monetary stimulus
- U.S. economic data turns nicely positive

NEGATIVE DEVELOPMENTS:

- Sharp worldwide financial market correction
- Emerging economies continue to slow
- Still considerable risk around Greek deal
- Commodity prices hit hard; commodity currencies and economies weaken
- Chinese stocks are increasingly woozy
- Numerous potential debt hot spots across the globe
- Chinese financial market and economic concerns
- Another bout of deflation concerns from low commodity prices
- Canadian economy remains under siege

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"My idea of planning for the future is programming the DVR."



OUT OF TOWN SCHEDULE

TERRACE
November 24,25

PRINCE RUPERT
November 26,27

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