Money Never Sleeps

The Newsletter for the Informed Investor

Wealth Management
Dominion Securities

Summer 2016

Vito Finucci, B.Comm, CIM, FCSI
Vice President & Director,
Investment Advisor
Associate Portfolio Manager
519-675-2011
vito.finucci@rbc.com

Jodie Fuller
Associate Advisor
519-675-2511
jodie.fuller@rbc.com

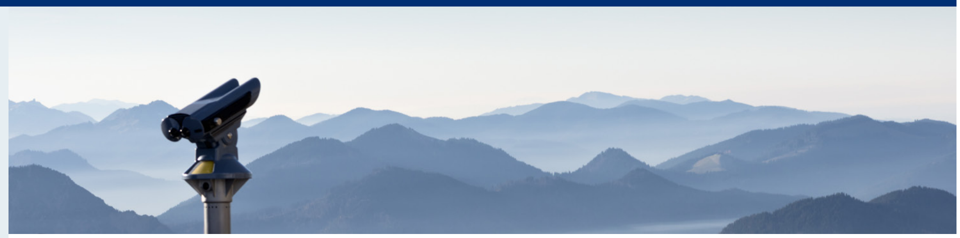
Gary Weatherup, CFP
Associate Advisor and
Financial Planner
519-675-2021
gary.weatherup@rbc.com

Sarah Smith, CIM, PFP
Associate Advisor
519-675-2505
sarah.e.smith@rbc.com

Jessica Basacco
Administrative Assistant
519-675-2021
jessica.bassaco@rbc.com

Fax: 519-675-2020
www.rbcds.com/vito.finucci

RBC Dominion Securities
148 Fullarton St., Suite 1900
London, Ontario N6A 5P3



The best laid plans

The big picture

"Who's next? Italeave, Czech-out, Finnish, Departugal or maybe Outria?
Yahoo finance headline the day after Brexit vote

After writing pieces for thirty years, often it's tough to come up with new and challeging topics. The Brexit vote in Britain seemed to be a 'lay-up' topic to write about, but if readers are anywhere near how I feel right now, I'm tired of hearing about the Brexit situation and listening to all the armchair quarterbacks pontificating about what will happen. The reality is, no one really knows. The Brits have up to two years to exit once their Parliament votes and that may still take months.

So a few random thoughts, in no particular order, and then enough about Brexit:

- I would suspect the ECB, already paranoid about deflationary pressures, goes even harder at stimulus, and negative Euro rates go even more negative.
- The UK will face a period of uncertainty, and most likely will go into a self-inflicted recession.
- London's status as one of the world's major financial centres has been tarnished.
- Brexit opens the doors for others to have their own exit leading candidates are Spain, Italy and the Dutch.
- German economy takes a hit? 20% of German cars are sold in the UK.
- The Brexit vote is an indication of longer term growing distrust of politicians and will lead to more Donald Trump "anti-establishment" type candidates.
- The Brexit vote was a referendum and technically not binding for the British government.

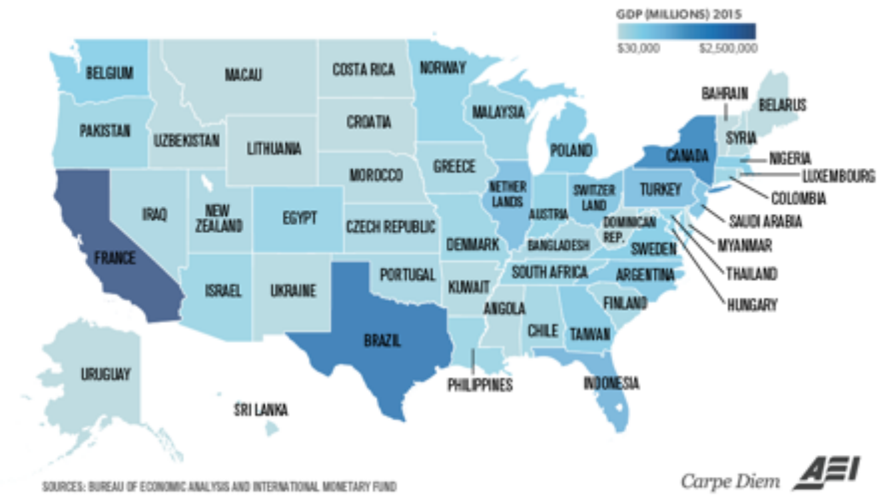
Britain itself accounts for about 4% of global GDP in 2015 while the USA is about 25% (Canada is about 2% just FYI) so people need to simply take a breath and let things work themselves out. And besides, markets have already recovered 90% as of this writing of what they "lost" after Brexit.

And à la Forrest Gump, "that's all I have to say about that."

In fact, one of the most powerful illustrations I've seen in recent years which really hits home on how big and

Expect global economic growth to continue to grind along at a snails pace, expect central banks to do more of what's not working, and expect politicians to continue to have no political will whatsoever to do the right thing.

U.S. States renamed for countries with similar GDPs, 2015



important the U.S. economy impacts, is the above which renames each state with countries with similar GDP's.

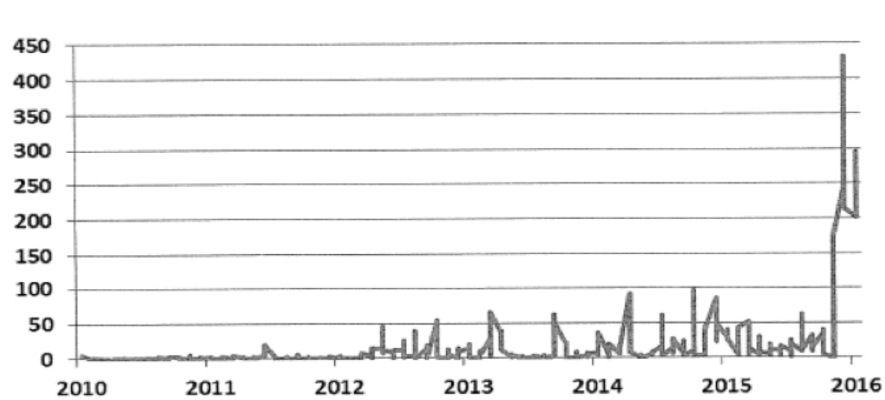
Moving on, the bigger issue for global economies is the move by so many central banks from Zero Interest Rate Policy (ZIRP) to Negative Interest Rate Policy (NIRP). As the chart (below) shows, it's a fairly recent phenomenom.

According to Jeff Gundlach, the new "King of Bonds", "Negative interest rates are the dumbest idea ever." The amount of debt now with negative rates is shown in the "Notes" section. The irony is, the ZIRP/NIRP policy has not led to the additional economic growth that Central Banks had hoped for. Markets in Europe, Japan and China are still down from the highs of recent years. With respect to currencies, NIRP has had the opposite result than was the intended purpose, instead leading to strength in the Euro and Yen relative to the U.S. dollar. Mr. Gundlack also believes negative rates are fatal to the banking system, and notes how banking giants Deutsche Bank and Credit Suisse are trading at all times lows.

Right now the U.S. bond market accounts for 60% of all positive yielding GIO debt, that despite a meagre 10-year yield at about 1.65%. In fact, this past week, Japanese 40 year bonds traded at negative rates. That's right, folks, you are guaranteed to lose money after 40 years!

Radical monetary measures – such as QE, ZIRP. NIRP – are not stimulating

Weekly count of Bloomberg stories featuring phrase "negative rates"



Source: Bloomberg

growth. Instead they are producing stagnation, deflation and currency wars. But! … investors need to adjust to ZIRP/NIRP … they are likely not going away anytime soon. Economic Logic 101 would tell you that if things are "fine", why are QE, ZIRP and NIRP even necessary?

What they are doing is forestalling the day of reckoning for all this debt that governments have issued, but all that does is simply get the politicians that created it "off the hook" only to be inherited by unlucky politicians (and generations) down the road.

In the meantime, expect global economic growth to continue to grind along at a snail's pace, expect central banks to do more of what's not working, and expect politicians to continue to have no political will whatsoever to do the right thing.

Notes

- There are over 13 trillion of bonds worldwide trading with negative yield - a significant increase from the 8 trillion or so just at June 1st, 2016. Japan alone accounts for 58% of all negative yielding global debt. (Jeffrey Gundlach June 14.16)
- Sixty-three per cent of Americans donated to charity in 2015 (#2 in the world), down from 68% in 2014. The most generous country is Myanmar which may reflect its culture of THERAVADA BUDDHISM. Rounding out the top 5 on the world giving index were New Zealand, Canada and Australia. (Source: Charities Aid Foundation)

Quotes

"Float like a butterfly, sting like a bee, your hands can't hit, what your eyes can't see."
Boxing Legend Muhammad Ali prior to his flight vs. George Forman 1974

"Moses took us 40 years through the desert to bring us to the one spot in the Middle East that has no oil."
Israeli PM Golda Meir

"The government has nothing to give to anybody that it doesn't first take from someone else."
Henry Hazlitt

"The nearest thing to eternal life we will ever see on this earth is a government program."
Ronald Reagan

The really big picture

The 27th Annual Children's Golf Classic was on June 5-6. Canadian golf icon Mike Weir and his Foundation joined us and helped us raise an incredible $504,000 + (net) for our local Children's Hospital. This takes our aggregate total to over $4.1 million over the years, and RBC has been proud to be the title sponsor throughout that entire period. A special thanks to our clients and partners who generously donated to our event.

Around the globe

Canada (Selective Buy)

- Continues to "grapple" with the resource shock, but energy prices have had a decent bounce
- Housing markets in Toronto and Vancouver remain hot
- Massive government debts everywhere raise questions about the long term
- Expect 2017 GDP of 1.75% (after 1.6% in 2016)

U.S.A. (Strong Buy)

- U.S. monetary stimulus becoming less effective
- U.S. earnings numbers continue to leak, which is a concern
- Highlight is U.S. Presidential Election in November
- 2017 GDP target 2.00% (2016 = 1.75% average)

Europe (Buy)

- ECB will be forced to act after Brexit, UK may go into recession
- Negative rates will go more negative
- German 10 year rates joined the negative yield this quarter
- If GDP is positive in 2016 and 2017 would be an achievement

Asia (Avoid)

- Too many questions with China (still); Japan sputters
- China GDP may fall to 5% in 2017 after 6.25% in 2016

Emerging Markets (Avoid)

- Have suffered the worst declines and may be stabilizing, some are great value, but negative rates, geopolitical concerns, and a strong U.S. dollar don't make risk/ reward worthwhile
- Only India shows structural promise; Brazil so beat up must be some value

A special welcome to all new clients who have joined us

Thank you especially to clients who have mentioned our name to people they know. As a sign of gratitude, four times a year we'll randomly select a client who has introduced our services to a friend for special acknowledgement via a nice dinner at one of the finer restaurants in London.

Please don't keep us a secret!

We are very happy and proud of the clients we serve in our practice and we are always open to serve more clients just like you. Should you be talking to someone who is unhappy with their current advisor, or would like a second opinion, we would be grateful if you passed on our numbers: 519-675-2011 or 1-800-265-5911. Thanks for keeping us in mind.

Congrats, Chris D., our winner this quarter!

Wealth Management
Dominion Securities