FEREBEE WEALTH MANAGEMENT
Fall / Winter 2015 Newsletter

Natalie Ferebee
Investment and Wealth Advisor
250-770-1203
natalie.ferebee@rbc.com
www.natalieferebee.com

Stephanie Frey
Associate
250-770-1204
Stephanie.Frey@rbc.com

Lise Maurier
Associate
250-770-1204
Lise.Maurier@rbc.com

Changes are all around us

Well it's that time year again where the trees are changing colour and the nights are getting a little chillier.

Summer came and went very quickly, but we did have the opportunity to have some great camping that included a week camping in Revelstoke. The beginning of September brought us some exciting news!! Jon and I became grandparents to Miles , weighing in at 8 pounds and 5 ounces. We are really enjoying all the love and snuggles that come with being new grandparents and as well the opportunity that if the baby is upset you can hand him back.

The fall also brought changes to our government, who is to say what the Liberal government will do with their time in power; however one thing that is on everyone's mind is TFSA contributions. If you have not heard the new Liberal government had made promises in their campaign to change the annual TFSA contribution limit from $10,000 back down to $5500 for 2016. If you have not already topped up your TFSA by $10,000 this year, give us a call before the end of the year so that you get it in before any changes occur.

It won't be long before the snow flies and the New Year will be upon us. We are looking forward to the changing season and all the fun that comes with the holidays.

Loonie Tunes

The loonie's downward spiral has taken it well below "fair value" where we think it may remain for some considerable time. But investors would be unwise to peg this as a case of déjà vu. We see other forces than just the oil rout that determine the path for the currency. And CAD weakness may be the best medicine for Canada's economy.

The sheen is off the Canadian dollar. Canadians are worrying whether they are about to revisit the early 2000's when it took more than one-and-a-half Canadian dollars to buy one U.S. dollar.

Not Just a Commodity Story

While it is popular to pigeonhole the Canadian dollar as a so-called "commodity currency," we believe that the actions of the Bank of Canada (BoC) and the Federal Reserve (Fed) play a much bigger role in driving big trend shifts in the Canadian dollar than does the price of oil.

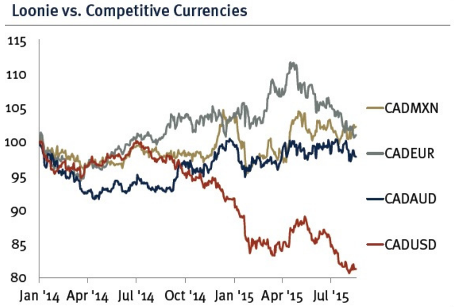
At the depths of the financial crisis, CAD traded below $0.80 and both Canada and the U.S. had lowered their respective overnight rates to 0.25%. Over the next 2+ years, CAD rose above par. While oil prices also climbed over this period, we believe the bigger driver was the dramatically different monetary policies pursued by the two countries.

Fed chairpersons have been blunt about their intentions: rates would remain very low for a very long time.

Conversely, the BoC kept its overnight rate at 0.25% for only a few months and then quickly raised rates to 1.00% in 2010. Shortly thereafter it began what was to be an almost three-year-long hawkish rhetoric about the inappropriateness of ultra-low interest rates for the Canadian economy, assuring markets that higher rates were just around the corner.

This drove capital to Canada to not only get the higher rates on offer, but also because of the prospect of even higher rates not far down the road. Foreign investors in Canadian T-bills found that as time passed not only were they earning a superior interest rate, but also all that money heading for Canada was driving the loonie higher, giving them a currency profit. This self-fulfilling, very profitable dynamic was importantly underpinned by the unmistakably clear commitment of both central banks—to a near zero-rate policy on the part of the Fed and to higher rates by the BoC.

Loonie vs. Competitive Currencies



Source - RBC Dominion Securities, Bloomberg

The loonie has held in well against currencies other than $US.

The BoC began to acknowledge that there was much more "excess capacity" in the Canadian economy than previously thought and given the fragility of the global economy raising rates anytime soon would be inappropriate—the message had changed.

About the same time, the Fed was announcing plans to wind down QE3 over the course of the next year, beginning the process of "normalizing" interest rates. Investors were still getting a higher T-bill return in Canada, but for how long? New money stopped flowing in and the loonie began to weaken.

In the past year, the rate shift has deepened. While the BoC has cut rates twice, the Fed has ended its QE (quantitative easing) programs and now seems poised to begin hiking rates. Weak oil prices have played a role to be sure, but we believe primarily as a mechanism that has weakened the Canadian economy and forced the BoC to lower rates.

Economy Likely to Remain Weak Relative to U.S.

The sharp decline in oil prices and oil-related activity, coupled with a slower-than-expected rebound in the manufacturing sector, has caused a contraction in the Canadian economy over H1 2015 with full-year growth unlikely to exceed 1%. There is evidence that manufacturing may be turning, courtesy of a weaker Canadian dollar and two interest rate cuts by the BoC, but even with these tailwinds, RBC Economics expects the Canadian economy to grow just 2.3% in 2016.

RBC Economics expects U.S. growth in 2015 to reach 2.4% before accelerating to 2.9% in 2016. A potential Fed interest rate hike later this year is an acknowledgement that the economy is on firmer footing and emergency support is no longer needed.

A Decade below Fair Value?

In the case of the loonie, fair value (purchasing power parity) relative to the U.S. dollar is around US$0.85. We believe that going forward, and likely for the next several years, CAD is likely to trade below fair value.

Already Canadians are travelling and shopping much less in the U.S.—same-day trips by Canadians have plunged by 20% since this time last year and by 26% since peaking in 2012. Americans' same-day trips to Canada are up by 18% since last year.

Continue to Diversify to U.S. Markets

With the deterioration in the Canadian economy relative to the U.S. economy, we believe that U.S. stocks, which have been outperforming Canadian stocks for the past four years, are likely to continue doing so, as domestic Canadian concerns weigh on growth, especially for those Canadian businesses that have limited exposure outside of Canada.

Consider Visiting the "Other" Naples

While CAD has lost about 20% of its value versus the greenback, it is worth noting that the loonie has held in reasonably well against most other currencies, eking out modest gains versus the euro and the Mexican peso over this time, while essentially keeping pace with the Australian dollar. Perhaps Canadian snowbirds used to vacationing in Naples, Florida should give some thought to visiting Naples, Italy, where today the loonie goes comparatively much further.

Lower for Longer for the Loonie

While we believe downside on CAD versus the greenback from current levels is likely to be limited to about 10%, we also believe that CAD is likely to trade below fair value (approximately $0.85) for potentially the next 3–5 years.

Ironically, a weaker CAD may be the best medicine for the Canadian economy, as it should gradually reinvigorate the moribund manufacturing sector, push more Canadians toward "staycations," and drive U.S. tourism to Canada.

This article was written by Barasch, Allworth, & Bansi analysts with RBC Dominion Securities.

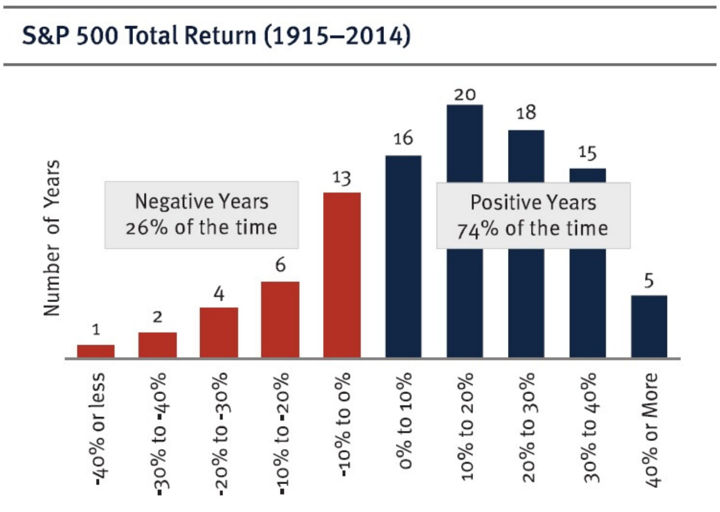
If you would like a full copy of this article please contact Natalie at 250-770-1204.

Ugly August

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.

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).



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.

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 focuses on some of these 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. But, 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 0%–10%, and years in which the market rises 30%–40% are almost as common (15 vs. 16).

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, take 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.

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.

This article was written by Matt Barasch, analyst for RBC DS. If you would like a full copy of the article please contact Natalie @250-770-1204.

Cranberry stuffing balls

Ingredients

4 slices prosciutto
1 tablespoon olive oil
1/2 red onion, finely chopped
2 garlic cloves, crushed
2 1/2 cups stale white breadcrumbs
1/2 cup dried cranberries, chopped
1 egg, lightly beaten
1 tablespoon chopped fresh sage
50 g butter, melted

Directions:

Step 1 Preheat oven to 200°C. Cut each prosciutto slice lengthways into four pieces.

Step 2 Heat oil in a non-stick frying pan over medium-high heat. Add onion and garlic. Cook, stirring, for 3 minutes or until onion is soft. Remove to a bowl. Add breadcrumbs, cranberries, egg, sage and butter. Season with salt and pepper. Mix well to combine.

Step 3 Shape tablespoons of mixture into 16 balls. Wrap one slice of prosciutto around each ball. Place on a baking tray lined with baking paper. Bake for 15 to 20 minutes or until browned and heated through. Serve.

Important notes and key dates:

Natalie wil be in Terrace Nov 2-3
Natalie will be in Smithers Nov 4,5,6
Natalie Holiday January 22nd - Feb 5th (tentative)
If you would like to discuss the new RRIF rates set for 2016 or if you would like to take advantage of the new RRIF rates by re-contributing the difference between the old rates and the new rates please contact us before February 27,2016.

Need online banking help? Call Stephanie today @ 250-770-1204 for a tutorial.