RBC Dominion Securities Inc.

Cooper Wealth Management

Wealth Management Dominion Securities

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"Offense sells tickets. Defense wins championships."
– Paul "Bear" Bryant, Legendary Alabama football coach

The playoff picture

In sports, you don't have to win every game to make the playoffs. However, the better the season you have had, the higher the expectations are to win. In equity investing, "Team Growth" has dominated "Team Value" as rising North American interest rates made growth stocks more attractive. However, with the U.S. Federal Reserve's recent change in direction, as well as signs emerging for a slowing, but still growing, U.S. economy, "Team Value" has come on strong. In our view, a balance between these two investment styles will be the best choice for the investment environment in the months ahead.

As of March 22, the TSX is up 12.3% year-to-date and the S&P 500 is up 11.7%. This great start to the year was leading the U.S. Federal Reserve's decision to hold off on any further interest rate increases. This, combined with a solid first quarter U.S. earnings season, despite lower analyst estimates, provided the fuel for a strong start for equities. For the past two years, we have remained convinced that the U.S. Fed would fail in their efforts to raise long-term rates, given the vast amount of global liquidity and over $10 trillion of global government debt yielding negative interest rates. It is interesting to note that the yield on the 10-year U.S. Treasury Bill stands at exactly 2.437%, right where it was when they started increasing short-term rates and that the 10-year rate is 19.7 basis points lower than it was 10 years ago. This is a long-term trend we don't see reversing anytime soon.

The current investment environment has the feeling of the playoffs. There have been a lot of wins but the competition is getting tougher. Housing, construction and manufacturing have all slowed in the U.S. The yield curve also experienced a brief inversion, with 30-day money paying more than 10-year bonds. While this has since flattened out, it is a worrying sign of a recession in the next two years. Despite these trends, the stock market has continued to rise and corporate earnings have remained solid. Our view is that there is little fear of a recession in the immediate future. Despite slowing in parts of the U.S. economy, overall GDP is forecast to grow between 2-2.5%, as it has for most of the last decade. Inflation remains below the Fed's 2% target rate and they now have some room to cut short-term rates if economic data begins to weaken further. Progress seems to be being made on a trade deal with China. There is also strong support from corporate America, as S&P 500 companies are scheduled to buy back over $1 trillion of stock, providing solid support to the market. We continue to believe the next two months for the market will be choppy, as investors seek future assurances that profit margins are being maintained and the overall economy doesn't slow too much, but that the overall direction will be higher.

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Playoff picture ...
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Weaker market years also lead to defensive, conservative forecasts and lowered earnings expectations historically, and this year will be no different.

Here are some of the economic and corporate factors we will be monitoring. To begin with, we will be watching initial jobless claims and the unemployment rate. Currently, there are over 1 million more vacant jobs than there are unemployed people to fill them. We expect this number to decline as employers give up expansion plans due to the inability to find workers. A reduction in unfilled jobs might make the market uncomfortable but will only become a real worry if actual unemployment begins to trend higher. The current data says this is not occurring but we will continue to monitor it. The next factor is corporate stock buybacks. The current forecast is for a robust year but if the trend falters, we will look to make your portfolios even more defensive. Next, we consider the oil market to gauge the strength of the overall world economy. The U.S. has emerged as a dominant global force. Over the last 10 years, they have increased their output from 2 million barrels per day to 11 million. Just in oil production alone, this represents an increase of over a half a trillion dollars per day of increase to GDP. When you add in the jobs created, transportation and refining, this number moves closer to 1 trillion per day, approaching 15% of U.S. GDP. This growing dominance of the oil market by the U.S. seems like a negative for Canada, but there is actually an interesting opportunity developing for Canadian producers. Most refineries in the U.S. are set up to process heavy Canadian oil. The cost to transition these refineries to process the light, sweet crude (Texas Intermediate) the U.S. is producing is in the billions. Western Canadian Select, Canada's heavy oil, is also cheaper for refineries to purchase. Therefore, if the U.S. decides to begin exporting its oil and continues importing cheaper Canadian Select oil, they can earn better profit margins and avoid trillions in expenses. We believe this trend has already begun as the price for Select has firmed up substantially. This is creating a trend that bears watching in the years ahead. No discussion on the economy is complete without looking at U.S. interest rates. Forecasters have removed any chance of a rate increase from their projections and there is even talk of a potential rate cut later this year. This is definitely welcome news to the market, as shown by the stock market rally to start the year. Finally, we come to the most controversial topic of discussion in the U.S., the political situation. We are into the third year of the term of this presidency. This is often regarded as the year when the president hands out political favours in an effort to get his people re-elected. One fear in the market is of a democratic sweep of power: President, House and Senate. A key development in the coming months will be who will rise to the forefront of democratic president hopefuls and what their particular focus will be. A bad showing by the republicans could lead to market volatility. Again, it is a trend we will monitor closely.

Given the playoff atmosphere, we are looking to balance the strongest elements of "Team Value" with those of "Team Growth." From "Team Value," we are selecting companies with strong and growing dividends such as bank, REITs and pipelines, while for "Team Growth," we are selecting companies with large competitive advantages, lower price-to-earnings ratios and a history of growth through all economic conditions such as information technology, railroads and home renovation. We believe these elements, coupled with our covered call program to generate cash flow, will be a winning formula in the months ahead.

In conclusion, the investment year is off to a great start but we continue to be waiting for any significant market trend changes. The playoffs may get tougher but your team will be ready.

As always, if you would like to review your portfolio or financial plan, please give our office a call.

Yours truly,

Walter Harmidarow
& the Cooper Wealth Management Team
of RBC Dominion Securities

Five ways to avoid a scam

There's nothing new about scams, fraud or stealing personal information, but it does seem that for every new convenience technology provides, a new scam appears. Protecting yourself might not always seem easy, but with a few helpful tips, and occasional reminders about the latest or most common scams, you can reduce the risk significantly.

1. Don't get caught by "phishers"

"Phishing" is a common online scam designed to trick you into providing personal information that can be used to rip you off or steal your identity. Scammers send you an unsolicited email that, at first glance, may appear to legitimate. Typically, the email will say there's some "problem" that requires your "urgent attention" and provides a link to a fake website, which requests your personal information. Remember, you should never provide personal information such as credit card numbers, passwords, date of birth or social insurance numbers, in response to an unsolicited email.

2. Practice safe surfing

Of course, not every email or website is a scam. For example, you may receive an email from a trusted service provider, reminding you to pay your bill online, and providing a link to their website.

If you're unsure whether the email or website is legitimate, reopen your browser and type in the company's website URL in the address bar yourself. Before entering any financial information, look for the lock icon on your browser and ensure the URL in the browser address starts with "https."

Avoid using public computers, keep your computer protection software up to date, choose effective security questions, and change passwords and PINs on a regular basis. Remember, if you're unsure about a website, you can always phone a company to verify using a phone number you know is legitimate.

3. Don't buy under pressure

Someone with a clipboard is knocking on your door. Your first instinct may be to pretend no one's home. But if you do open the door (or pick up the phone) and find yourself being asked to buy something or donate to charity, be careful. It could be a scam. If you are interested, don't commit on the spot, or provide any financial information such as your credit card number, especially if you're being pressured. You can always take the time to make your decision and research a company or charitable organization to ensure it's legitimate.

4. Invest with care

There are no guaranteed get-rich-quick schemes, and "secret" short-cuts to wealth or "hot tips" are also very likely scams. These scams are often about stealing money from you, or obtaining your personal information. Salespeople that pressure you to sign or invest immediately could be perpetrating a scam. When investing, it's best to work with someone you know who works for a reputable company.

5. Educate yourself

It seems like there's a new scam every day, whether it's an unusual request that seems "too good to be true" or someone using a hidden camera to steal your PIN. Learn about some of the most common scams by checking out The Little Black Book of Scams, published by The Competition Bureau of Canada, at www.competitionbureau.gc.ca.

Riding the bull market

To be considered a qualified ride, a bull rider must stay mounted for a minimum of eight seconds – the moment when a bull starts to tire and its bucking weakens. There's no such qualification for a bull market but, by coincidence, our current bull is eight years old and about to turn nine. Every day it seems the Dow Jones and TSX hit new highs. While RBC investment strategists believe the markets still have room to ride, some investors may be wondering if the bull is starting to tire and if it's the right time to invest in equities. What's an investor to do?

Let it all ride

Timing the end of a bull market, while tempting, is famously difficult. Legendary mutual fund manager Peter Lynch claims, "Far more money has been lost by investors preparing for corrections, or trying to anticipate corrections, than has been lost on corrections themselves." No one wants to invest at the wrong time, but over the long term, the markets tend to ride on.

Consider investing $100,000 on Oct. 9, 2007 at exactly the "wrong time" – the peak of the S&P 500 Index, right before the crash. That day, the S&P 500 closed at 1,565.15 points. By the time the Great Recession had bottomed in 2009, the S&P 500 had more than halved. But 10 years later, the S&P 500 closed at a towering 2,544.73 points. That's over 6.2% in annualized returns over 10 years – $100,000 became $162,586. Not bad for investing the day before one of the biggest market crashes in history.

Let it ride a little at a time

Timing the markets may be nearly impossible but, with dollar-cost averaging, you don't even need to try. To dollar-cost average is to invest a fixed

amount in a specific asset at regular intervals – for example, investing $10,000 each month in company XYZ for 12 months, instead of $120,000 at once. Your fixed investment buys more shares when prices decline, and fewer when prices rise. Essentially, you smooth out price swings over a period of time to give you an average purchase price. You may not get the thrill of getting in at a market low, but you also escape the pain of investing at a market high.

Let it ride into the ground

"One dollar invested in stocks in 1802 would have grown to $8.8 million in 2003, in bonds to $16,064, in Treasury Bills to $4,575, and in gold to $19.75." Jeremy J. Siegel, Wharton Professor of Finance, leaves it to our imagination as to what becomes of a dollar invested in nothing but cash and subjected to 200 years of nibbling inflation (if it even lasts that long). We can avoid investing in equities 'til the cows come home, though research tells us time and again that for investors with a longer investment horizon, equities can be a bull worth riding.

Ultimately, your personal goals and comfort level with risk help us determine the best strategy for investing in equities. To learn more, please contact us today.

Please contact us

For assistance in planning or acting on any of the ideas shared in this article, please reach out to us and we will have our team arrange a meeting to discuss how we can best serve your family's needs. Once again, thank you for your support and we look forward to serving your future investment needs at Cooper Wealth Management of RBC Dominion Securities.