"Only buy something that you would be perfectly happy to hold if the market were to shut down for 10 years." – Warren Buffett

The Long and Short Challenge

Warrant Buffett is widely regarded as one of the greatest long term value investors, ever! His message is clear: Buy stocks of high quality companies that will grow over time. The question an average investor faces is what is their time horizon? Even more importantly in many cases, what does the average investor do if they need capital or income now?

Mr. Buffett, through his company Berkshire Hathaway, has an infinite investment time horizon and no need for cash as he pays no dividends. The average investor is not so fortunate and usually requires investment income and/or capital to fund their retirement. This immediate short term need often distracts investors from their goal of long term capital growth. This is particularly true when the market is in an extended flat period, as we have witnessed with the TSX over the last few years. At the end of August, TSX stood at the same level it was both one and three years ago.

Our approach to investment management is designed to address both short term and long term objectives. In the short term, we focus on generating cash flow from your portfolio through dividends and our covered call program. This cash flow is used to pay out retirement income and/or for reinvestment. To meet long term needs, we focus on companies we would be happy to own for the foreseeable future. We also diversify among different industries to reduce overall portfolio risk and try to buy stocks when they represent good value.

We believe that we are currently in a very good value market in Canada, as represented by the TSX. The end of summer has been a weak period for Canadian stocks over the last few years, with the market often rallying into year-end as mutual fund and pension managers get fully invested for the year end.

Over the last three years, Canadian stock market has been hurt by lingering weakness in oil and other commodity prices, concerns over high real estate valuations, particularly in Toronto and Vancouver, and more recently by the Bank of Canada's surprise decision to begin raising interest rates, which is now at 1% (up from 0.5% just four months ago). As commodity prices have begun to firm up and the housing market beginning to cool off, financial fundamental value of many Canadian companies have recently shown great improvement. The interest rate hikes will also help the profitability of Canadian banks and therefore the general direction of the Canadian market.

The Bank of Canada's recent rate hike also drove our Canadian dollar approximately eleven cents higher versus the US dollar, causing a short term set back on US stock positions. While the US market is closer to all-time highs, we still see pockets of value and will continue to maintain our 35-40% US portfolio weighting, as the US dollar recovers to higher, longer term levels.

Our thesis on interest rates remains unchanged. While Bank of Canada's decision surprised the market, we believe they will encounter same challenges as the US Federal Reserve, namely they may be able to temporarily move short term interest rates higher, however they will prove unable to influence long term interest rates, resulting in a much flatter overall yield curve with the potential to slow down both economies if the central banks are not careful. Until the vast stores of global liquidity find a more permanent home, we are of the opinion that interest rates in North America will stay at or near today's low levels.

Recent storms in southern US, both tropical and political, have been a short term negative for US investments. The hurricanes will reduce US Gross Domestic Product (GDP) for a couple of quarters, until the rebuilding starts, probably by the start of 2018.

The immobility of the Republicans to pass legislation and the rumblings out of North Korea are certainly a distraction but US spent the last eight years unable to pass meaningful legislation and there has been global conflicts since time began, only with different participants, and the US stock market has gotten along just fine. Neither of these factors affect how much coffee Starbucks sells or how much is sold at Home Depot.

The recent hurricanes did have the effect of shutting down approximately 23% of US oil refining capacity temporarily causing a short term spike in gasoline prices. The prices should drop again the coming months as the refineries come back on line and winter sets in. OPEC continues to keep production down to raise oil prices well above $50, but while daily demand has increased globally, we have not yet materially reduces oil inventories and as a result, we expect oil to remain in a narrow price range until the inventory overhang is reduced.

In conclusion, we believe the case for Canadian equities is the strongest it has been in the last two years and continue to invest accordingly. We will continue to monitor all markets and look for the strongest combination of short and long term returns.

As always, if you have any questions or concerns, or would like to set up an appointment to review your investments or financial plan, please give us a call.

Yours truly,

Walter Harmidarow and the Cooper Wealth Management Team