

# Private Investment Management (Discretionary)



Wealth Management  
Dominion Securities

Volume 1, January 2018



## Greetings, dear client

### **Let's now recap 2017 returns for all different asset classes!**

First and foremost, we would like to wish to all of our clients and their families an amazing year in 2018!!

We will begin this financial letter with an overview of major asset classes for 2017.

For this occasion, I invite you to consult Table #1 on the following page. Fixed income securities (bonds) have achieved little yield of return in 2017 (+2.52%), as a result of current low interest rates in Canada.

After winning first place in stock markets in 2016, Canadian equity market has sub-performed on a global average in 2017. The Canadian stock market's (S&P/TSX) appreciation was of 6.03%. Nonetheless, when including paid dividends, the total return was about the same 9.10%.

Foreign stock markets' returns (US, Europe and emerging markets) were excellent during 2017 but decreased by 6.92% due to the Canadian dollar's upturn, closing at 0.7955\$ vs the US dollar at the end of year.

**You can see that 2017 returns on different stock indexes were better than the average over a 17 year-period (from December 31<sup>st</sup>, 1999 to December 31<sup>st</sup>, 2017). Annualized returns of 6.3% for the Canadian market and 4.63% for the US stock market since 2000 is an indicator that it is important to well manage your investment expectations of returns for future years.**



**Guy Tessier, B.A., GPC**  
Vice President and Portfolio Manager  
guy.tessier@rbc.com  
514-878-7023

**Sophie Labonté**  
Associate  
sophie.labonte@rbc.com

**Table #1**

Return of different asset classes (Index)	Value 31-12-2017	Return 2017 (2)	After 3 years	31-12-99 (17 years)
<b>Bonds (All) (Dex Universe Bond Index)</b>	1036.84	<b>2.52%</b>	2.57%	5.64%
<b>S&amp;P/TSX Composite Total Return index</b>	16209.13	<b>9.10%</b>	6.60%	<b>6.30%</b>
S&P500 Total Return index - dollar US\$	2673.61	21.83%	11.42%	5.40%
<b>S&amp;P500 Total Return index - dollar C\$ (1)</b>	2673.61	<b>13.95%</b>	14.37%	<b>4.63%</b>
<b>MSCI Europe Index Price return - dollar US\$</b>	131.41	7.27%	6.50%	<b>0.10%</b>
<b>MSCI Europe Index Price return - dollar C\$ (1)</b>	131.41	<b>0.33%</b>	6.50%	<b>0.10%</b>
<b>MSCI Emerging Markets Index Price return - dollar C\$ (1)</b>	1158.45	<b>25.65%</b>	9.50%	<b>4.10%</b>
<b>Currency Exchange US\$/C\$ (change%) (3) et (4)</b>	\$ 0.7955	<b>6.92%</b>	-7.56%	

- (1) Returns converted in Canadian dollar.  
(2) Returns including paid dividends  
(3) Exchange rate \$US/\$C was 0.7440 as of 2016-12-31

**Table # 2**

Asset Classes	Weight	31/12/2016	31/12/2017	Return (%) converted in CAD	Return (%) local currency
Liquid Assets (currency market)	3%	100.00	100.94	<b>0.56%</b>	0.56%
Dex Universe Bond Index (bonds)	37%	1,011.39	1,036.84	<b>2.52%</b>	2.52%
<b>Fixed income</b>	<b>40%</b>				
S&P/TSX Composite Total Return Index (Canada)	22%	15,287.59	16,209.13	<b>9.10%</b>	9.10%
S&P500 Total Return Index (USA) (a)	23%	2,238.83	2,673.61	<b>13.95%</b>	21.83%
MSCI Europe Index	10%	122.50	131.41	<b>0.33%</b>	7.27%
MSCI Emerging Markets Index	5%	862.27	1,158.45	<b>25.65%</b>	34.35%
<b>Equities</b>	<b>60%</b>				
Total portfolio (example)	100%			<b>7.47%</b>	

Source: RBC Dominion

As you will see from Table #2 above, an investor with a balanced portfolio with a weighting of 40% fixed income and 60% equity will incur a 7.47% return in his 2017 portfolio, before management fees, that is if this investor had the same mix of asset classes as shown in Table #2.

Please note that the reports titled: "Portfolio Reviews - Summary as of December 31<sup>st</sup>, 2017" which you will soon receive at your door (sent at the end of every quarter) will showcase the returns converted in Canadian dollar. You will be able to notice that your returns compare favourably.

### Let's now jump to 2018 outlooks

Table # 3 represents future perspectives for four different financial institutions regarding their respective targets for both, Canadian and US stock markets.

Canadian and American markets' targets	Canada	Canada	Variation	USA	USA	Variation
	S&P/TSX Dec-17	S&P/TSX Dec-18	over 1 year %	S&P500 Dec-17	S&P500 Dec-18	over 1 year %
National Bank of Canada	16,209	17,750	15.4%	2,674	2,850	1.8%
Desjardins Securities	16,209	18,400	21.9%	2,674	3,090	4.2%
Laurentian Bank Securities	16,209	18,000	17.9%	2,674	2,800	1.3%
Canaccord Genuity	16,209	17,250	10.4%	2,674	2,800	1.3%
<b>Average of all 4 institutions</b>	<b>16,209</b>	<b>17,850</b>	<b>16.4%</b>	<b>2,674</b>	<b>2,885</b>	<b>2.1%</b>

Source: Journal "Les affaires", December 16th, 2017 Edition, page 21 and 22.

These four (4) institutions foresee 2018 as positive for stock markets. For those who wish to, I invite you to review the document titled: *Global Insight 2018 Outlook*, a report issued by RBC Wealth Management sent by mail last November 30<sup>th</sup>. On page 5 of the RBC Wealth Management document, it is stated the following: "We remain constructive on global equities given the synchronized upswing occurring in most major economies accompanied by low recession risks and relatively tame monetary policies. Corporate revenues, earnings, and estimates should continue to rise. While a consolidation period or pullback would be normal following the strong rally in 2017, we believe a moderate Overweight position in global equities is warranted as our positive long-term thesis remains intact. Valuations of major markets have pushed higher, but are not high enough to foreclose further gains and remain attractive compared to bond prices."

The picture below refers to our anticipation of the economic and stock markets activities in 2018.



Stock markets and/or the economy could stumble in 2018; a decrease in portfolios is not excluded. However, based on different readings, the majority of financial institutions, including RBC Dominion Wealth Management, are optimistic regarding stock markets' performances in 2018, although returns are not expected to be as good as 2017's.

### Transactions since October 20<sup>th</sup>, 2017

	Date	Position (\$CAD Account)		Type	Share Price	Purchased Price	Variation
1	November 7	Vermillion Energy		Sold	\$ 45.60	\$ 41.42	10%
	Date	Position (\$US Account)		Type	Share Price	Purchased Price	Variation
2	December 12	DowDupont inc.	(1)	Sold	\$ 71.17	\$ 70.72	1%
3	December 12	Nucor Corp.	(1)	Purchased	\$ 60.49		
4	December 19	Alibaba Group Holding		Added	\$ 172.83		
5	December 19	Newell Brands Inc.	(2)	Sold	\$ 30.30	\$ 46.68	-35%
6	December 22	Walgreen Boots Alliance	(3)	Sold	\$ 72.55	\$ 72.44	0%

1. For a number of positions in our portfolio, we based our selection, amongst other, on ascending dividend rates over the years. The decrease of the dividend distribution DowDupont Inc. (DWDP) shareholders violated this principal, which justified its liquidation. DowDupont Inc. was replaced by an investment in Nucor Corp (symbol NUE). Nucor is the most important steel manufacturer in America and Nucor has increased its annual dividend for over 25 consecutive years.
2. In 2017, we realized large capital gains due to profitable sales of multiple positions in our portfolios. To reduce capital gains, we sold below cost Newell Brands' (NWL) position. Once again, none of our investments in portfolio are infallible, but our discipline regarding sales and purchases and our low exposure per position in portfolio, reduce the severity of potential losses.
3. We recently liquidated the position acquired in Walgreen Boots Alliance (WBA) to invest more in Europe for 2018. Thus, sales proceeds from Walgreen equities will be invested in a note linked with the EURO STOXX 50 index and maturing in 5.5 years. This non-principal protected note includes a booster of 95% with respect to the EURO STOXX 50 index. The starting value of the EURO STOXX 50 index, which consists of the 50 most important European societies, is 3,582. We are confident that the European market will be at least equivalent to its starting value (3,582) in 5.5 years and, if it is indeed the case, this small position in this note will be sold at profit by 95%. As a reminder, this investment on this note will allow for an increase of the weight of European equities in portfolio, a promising part of the globe for 2018.

Though multiple information on returns was given, **it still has to be compared to your long-term financial plan.**

**Therefore, on a mid to long term basis, is the evolution of your financial wealth (including your portfolios) going as intended? If so, congratulations.**

If needed, what are your projects, objectives and/or questions which would require a discussion with us? As usual, do not hesitate to contact us. We have all the necessary resources to help you in your financial planning.



**Wealth Management**  
Dominion Securities