

Money Never Sleeps

The Newsletter for the Informed Investor



Wealth Management
Dominion Securities

Spring 2018



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A world of paradox (in a period of secular disruption)

Paradox (defined by the Oxford Dictionary): a seemingly absurd or self-contradictory statement or proportion that when investigated or explained may prove to be well-founded or true.

We seem to be in the midst of the greatest technological disruption we as humans have ever experienced. At the same time, the global political arenas appear to be going through their own unsettling, and creating deep chasms in the various societies impacted by them.

As a result, the daily flow of information, be it in mainstream media or on the Internet in the form of blogs, websites, etc., has created a lot of “misinformation.” Either that, or it’s created too much information and appears to be confusing the masses.

It has created a world encumbered with paradox.

On the economic side, some are obvious examples:

- There is full employment, but little or no inflation
- There is low economic growth, but high valuations

- There has been low market volatility for some time, but high uncertainty
- Real rates are higher, yet we have lower short-term market returns
- Oil is rallying, yet the Canadian dollar goes lower

On the political side:

- In the U.S., we see an economic impact of Trump’s election
- In Canada, we’ve always leaned “left of centre,” but may be leaning totally left
 - B.C. and Alberta are NDP
 - New Brunswick, Newfoundland, Nova Scotia, P.E.I. and Quebec are liberal (as well as, until recently, Ontario)
 - Saskatchewan has its own party
 - Manitoba (until recently) was the only province with a conservative premier



So in our world of even more rapid change, where disruptions remain as big a threat as ever, we need to sometimes take a breath ...

- In Europe,
 - Macron is trying to change France
 - Italy, which has leaned far left for 40 years, is now leaning right
 - Merkel's position in Germany is not strong
 - Brexit's full impact is still up in the air
 - Hungary and Bulgaria elected conservative governments
- In Asia, China President Xi was given the position "for life"
- The Korean situation
- Just this weekend, Mexico elected a far left government which adds more questions to NAFTA

In technology, the Internet is now over almost 30 years old, but look what's going on right now:

- Artificial intelligence (AI)
- Autonomous vehicles
- Streaming
- Social networking
- Robotics
- Blockchain
- Biomedicine
- Electric vehicles
- Cryptocurrencies
- Among many others ...

The chart on the next page shows how long technologies took to get mass adoption. To add to it:

The television took 50 years to get to

50 million users. The radio? Thirty-one years. The internet? Four years. The latest "app"? ... As little as 30 seconds.

Real secular disruption is going on. The simple rumour of Amazon entering a business causes damage. Last week, the day Amazon announced it purchased an online pharmacy, eight publically traded drug retailers lost about \$18 billion in market capitalization.

Market wise, we keep reading that the economy is in a late cycle, which would indicate risks of rising inflation, a slowing China, a tightening of central bank policy, etc. Some 1999 investor behaviours have even crept in as witnessed in Bitcoin and the Canadian pot stocks, as two recent examples. The Canadian market typically benefits in late-stage cycles, but halfway through 2018 we remain negative on the TSX.

The wild card in all of this noise remains the U.S. economy. If an investor can simply get the U.S. economy right, most investment decisions would fall in line after that. The U.S. is but 4% of the entire world's population, but accounts for about 25% of the global economy. And the biggest piece of the U.S. economy? The U.S. consumer which accounts for an astonishing 71% of the country's entire GDP.

The U.S. economy will be about US\$20 trillion this year, with the next largest economy, China, still a

distance at US\$11 trillion. Canada, by the way, is at about US\$1.75 trillion. So yes, a great place to live, work and play – but a global economic powerhouse? Not so much.

So after all the noise and information is processed, here are some conclusions we might come to:

- Even though we are now 10 years out of the Great Recession and sentiment is higher, as are valuations, equities still seem the place to be
- With global interest rates rising, bonds have some risk
- We still anticipate more of a rotation from bonds to stocks
- With nearly full employment, inflation – especially wage inflation – is a risk
- Tariffs do not necessarily mean a trade war (I doubt it, in fact)
- Disruptions are a bigger threat than ever
- No signs of an imminent U.S. recession (at least for 2018)
- The changing central bank policy remains one of the biggest risks

So in our world of even more rapid change, where disruptions remain as big a threat as ever, we need to sometimes take a breath, not believe all the nay-sayers and pundits, and remember that everything will be A-OK ... for now, anyway.

Notes

- Making America great again? The U.S. is about to retake the title of having the fastest computer in the world. The machine, called Summit, can perform 200 quadrillion (that's 200 with 15 zeros) calculations per second. To put that in perspective, if every person on earth – that is, all 7.4 billion of us – did one calculation per second, it would take us 305 days to do what Summit does in one second. The computer was specifically designed with AI/machine learning in mind.
- Chart of technology adoption:

Year Developed	Technology	Years until mass adoption
1872	Electricity	46
1876	Telephone	35
1897	Radio	31
1926	Television	26
1975	PC	16
1983	Mobile Phone	13
1991	The Web	7
2001	iPod	4
2006	Facebook	3
2007	iPhone	2.5

Source: RBC Capital Markets – Imagine 2025 Presentation



Quotes

“Our Constitution protects aliens, drunks and U.S. Senators”
– American Actor Will Rogers (1879-1935)

“I never worry about diets. The only carrots that interest me are the number of carats in a diamond.”
– Mae West

“Someone is sitting in the shade today because someone planted a tree a long time ago.” – Warren Buffet

Around the globe

Canada (buy)

- How will the tariffs impact our economy? Seventy-three percent of Canadian exports go to the U.S.
- Right now the Canadian economy is sandwiched between the U.S. and China
- Our housing market remains frothy
- We have an expected GDP of just 1.75% for 2018

U.S. (strong buy)

- Economy continues to move nicely with an anticipated 3.00%+ GDP in 2018
- Protection/nationalism remain big question marks
- Global markets are still trying to figure out Trump
- First quarter GDP was 2.00%, the best in seven years

Europe (hold)

- The European economy grows in fits and starts
- Remain behind the American economic cycle
- Europe's collective GDP for 2018 is 2.25%
- The full impact of Brexit is still up in the air
- Monetary policy is patient and persistent (so far)
- Macron is changing France and Merkel could be in trouble in Germany
- Italian politics make it a question mark now

Asia (avoid)

- China is stumbling – Shanghai's index is down 23%
- Japan is now past deflation – negative rates are expected to disappear by the first quarter of 2019
- The Korean situation seems to have settled (for now!)

Emerging markets (avoid)

- Emerging markets have had a tough 2018
- Venezuela, Argentina and Brazil are all stumbling
- A new president was elected in Mexico
- India is underperforming compared to expectations

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.

Our winner this quarter is R.A.

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.



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