*Conference Call*

# Unpleasant Truths or Comforting Lies

**Q1 2016**

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Thank you and good afternoon everyone. Welcome to our Q1 2016 conference call. This series of conference calls we host throughout the year are designed to provide our client families with additional information about the economy, market and portfolio activity. You can find all our previous calls plus a wealth of information about our services on our website at **www.advice-first.ca.**

I want to get into the material right away, so let me remind you, as I always do that ***"The information in this conference call is derived in part by Counsel Portfolio Services and IPC Private Wealth - both divisions are affiliated entities of IPC Securities Corporation ."***

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Today I want to start with a quote from Royal Banks – Global Investment Outlook Publication dated spring 2016. The opening executive statement states the following: "Global economic growth has clearly been sluggish and, while we don't see a recession on the horizon, the risks to our outlook have increased. Central banks are engaging in a familiar attempt to revive growth and enthuse financial markets via additional monetary stimulus. But they are encountering less success than usual, failing to distract financial markets from the reality of subpar economic growth, low bond coupons and stagnant earnings. In this difficult environment, risk assets such as equities and corporate bonds have suffered."

The document goes on to say –

"The world is grappling with an unusually large number of downside risks and challenges. A familiar set of headwinds – debt excesses, the resource shock, the emerging market slowdown and a grab-bag of Chinese imbalances – continues to brew. Newly added to these risks are rising geopolitical risks, an aging business cycle and fresh worries about the banking sector."

Those two paragraphs alone could sum up what the markets experienced in the first quarter. But what is interesting is that if an investor sold into that negative sentiment, they most likely would have experienced what is referred to as a "whip saw" event. In the 1st Quarter of 2016 the S&P 500 experienced a decline of -10.5% until up to Feb 21st. But then it began to rebound and moved higher. By the end of the quarter the S&P 500 rallied to end the quarter flat. That's a typical whip saw and we don't experience them too often in the first quarter of any year. But fear and greed continue to dominate market performance and those who exited the market in the first quarter did not get the opportunity to rally back.

We experienced some interesting developments in the first quarter:

Energy and material stocks started to rally back increasing 7.4% and 20% respectively. We saw oil hit its lowest point of $26 in mid-February only to rally to the current $44 range.

US stocks sold off on worries about the global economy slowing down, especially in China.

Also in the US, Trumpism was gaining momentum as the reality that he could become the Republican nominee started to settle in.

We continue to see central banks around the world make efforts to control the value of their currencies.

There seemed to be a greater displeasure of markets by investors.

We started to hear more about NIRP. We are all probably familiar with the ZIRP that has been going on for years. But now we are hearing much more about NIRP that has been adopted by Switzerland, Japan, the ECB, Sweden, and Denmark. So far the US has not entered in the NIRP world but would rather be in a position to be able to raise rates. So far, the Global economy has not given Janet Yellen and the committee the confidence to raise rtes. What is interesting is how quickly things can change. In January 21, the BOJ announced that they had no plans to adopt negative interest rate policy. Yet only 8 days later, on January 29th the BOJ surprised the markets with a move to negative interest rates. It makes us wonder what happened in those 8 days to cause a change of direction. During the first quarter of 2016 the world now has over $6 Trillion dollars of global government bonds with negative yields. This is up sharply over last year. Up about 100% (or doubled the amount as at the end of 2015).

So why are central banks continuing to pursue ultra-loose monetary policies? The reason is that over the last two decades we have seen high levels of public and private sector debt. These high levels of debt (especially at the private-sector level) can threaten to destabilize the banking system and choke off credit. These developments could lead to bankruptcies, high unemployment and loss of faith in the monetary system. What we have seen is a refusal of government to use fiscal tools such as infrastructure spending and tax reform which could help create the economic growth needed to support these high debt levels. Until political constraints to such measures can be overcome, central banks will continue to try to hold down interest rates.

But holding interest rates at zero has not turned the global economy around so far. So central banks are beginning to enter into negative interest rate territory in hopes that money will move out of banks and into the economy.

Negative interest rates should, in theory; pressure savers to take their money from the bank and either spend it on goods and services or invest in higher-risk assets.

Negative interest rates should, in theory, pressure corporations to take their money from the bank and invest in capital expenditures to sell more products and services and hire new employees.

The goal is to get money circulating so it can stimulate economic activity. But what is this policy fails also? This is why I have entitled this conference call – Unpleasant Truths or Comforting Lies. Investors continue to look to central banks for direction and leadership to move the global economy out of this bumpy ride. It is as if investors are lining up to hear the comforting words of the central banks without and any real understanding that the current monetary policies could also fail. We are entering rarely used monetary territory. And if it doesn't work, I believe central banks will continue with further unorthadoxed monetary policy to attempt to revive global growth. As such, we believe the markets will continue to be a bumpy ride over the next few quarters.

The reality is markets go down and they go up. But they go up more than they go down. It's the timing of being in or out of the market that hinders investor success. No one can time the market. Already this year, we have seen an intra year low of -11% on the S&P500. Last year the S&P500 had an intra year low of -12% but ended up flat on the year. In fact, the S&P 500 has always had an intra year low every year. Looking back at market data to 1980, the market has seen more up years than down year, even though every year has experienced an intra year low. Since 1980, we have seen only 8 negative performance years and 27 positive performance years. It's not about timing the market; it's about time IN the market.

We look to God to be our provider, not the markets. He can use the markets as a source of provision, but it is never guaranteed. As such we continue to use transcendent principles to manage portfolios. The main principle we are using now is – Diversification. We believe a well-diversified portfolio with a well-defined long term investment strategy will provide the best opportunity to help our clients reach their goals.

Here is what our investment specialists are doing in the portfolios in this current market:

Mackenzie – Canadian Core Fixed Income – has a positive outlook for Canadian investment grade bonds and sees opportunities in corporate bonds. They have increased their exposure to corporate bonds.

On the Canadian Equity mandate managed by Sionna - Her team is using the recent downturn as an opportunity to upgrade the portfolio with quality energy and energy-related companies that are temporarily undervalued.

For US equities, the team at Marsico summarize their outlook with the phrase "Lower for Longer"; meaning that they believe global growth will remain muted for an extended period of time. However, "the US appears to remain on a decent expansion path with more signs of a patient hand at the helm of the Fed." They favour "innovators", that is, companies using disruptive technology to create better business models.

You see, even in uncertain times, there are opportunities for investors to achieve success.

As the world grapples with slow global growth, the ride will be bumpy. As investors, we must remain focused on our goals and God as our source.

We as the stewards of your financial plan, we continue to monitor your portfolios and provide guidance as we move forward. Be careful not to be whipsawed in a market by exiting and missing potential rebounds. Stay focused on the long term.

If you have any questions or would like to review your portfolio, please let Laurie know and she will schedule a time of review.

**Warm Regards for a wonderful, warm summer. We will speak to you again in August.**


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