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Market Focus

IA CLARINGTON INVESTMENTS

Dan Bastasic

Equities have room to run April 2018

WHAT IS THE STATE OF NORTH AMERICAN EQUITY MARKETS?

Equity markets have become more attractive in the last couple of months than they have been in the last couple of years. Overall price levels for the equity markets have come down, this has reduced the market's overall forward P/E ratio to levels we haven't seen in a number of years

At the same time, earnings have gone up because of global economic growth and tax reform in the U.S.

We expect this rise to continue for the next 12–18 months

Source:

WHAT DOES THIS MEAN FOR EQUITY INVESTORS?

• We expect stocks to show continued positive momentum to the end of 2019, at which point there will likely be a number of risks to take into account

But for the next 12–18 months, there's enough fundamental support – looking at both earnings and valuations – to make equities an attractive choice in both absolute and relative terms

WHAT ARE YOUR EXPECTATIONS FOR RETURNS IN 2018?

We believe U.S. equities have a shot at producing double-digit returns for 2018

Our expectation at the start of the year was for high-single-digit to low-double-digit returns, based on positive economic momentum, earnings growth and U.S. tax reform

The Canadian market is cheaper than the U.S. market on almost every front – why hasn't the gap closed in the last couple of years?

We believe there are a number of risks we have to get through before the gap closes, including NAFTA negotiations and the price impact on Canada of a lower tax regime in the U.S.

When these two issues are resolved, you'll start to see the valuation gap between the U.S. and Canada close

We are looking to the end of 2018 as the point when we start to see the gap close; in the meantime, the U.S. market seems to have better prospects from both a risk and return perspective

B.C. economy forecast to remain strong through 2020

Warning flags include trade disruptions due to trade wars or disputes over renewal of NAFTA

Canadian Press

British Columbia is predicted to have solid economic growth through 2020 by a trade association of credit unions.
Central 1 Credit Union says 2017 was a year of “stellar growth” and the positive momentum will continue in B.C. for the next 24 months, despite a slower housing market.
The new forecast calls for a 3% growth in the province’s real gross domestic product, which is the inflation-adjusted value of all goods and services produced in B.C.
Growth is expected to slow to just over 2% next year, but Central 1 economists are calling for a rebound to 3.3% by 2020, marking what they say has been “more than a decade of uninterrupted annual growth.”
Federal lending restrictions, provincial government policies and stepped up home construction will combine to keep a lid on B.C.’s housing market, but Central 1 does not foresee a price correction.
Bryan Yu, deputy chief economist at Central 1, says warning flags include trade disruptions due to trade wars or disputes over renewal of the North American Free Trade Agreement, but he says B.C.’s exports are spread across the province, limiting some of the risk.
Yu also forecasts faster wage growth for B.C. workers, as average unemployment moves toward 4% over the next two years.
“Employers will face increasing challenges in finding workers to support operations as employment is constrained by growth in the labour force due to an aging population,” he says in a news release.
Overall, Yu predicts a surge in investment by the end of the decade as major private and public works projects get underway.
“B.C.’s economy remains in a strong position with consumer demand underpinned by high employment and income growth, rising exports and government spending,” he says.

Bank of Canada keeps interest rate steady at 1.25%

BANK OF CANADA
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Roughly 50/50 odds of a rate hike next month
Pete Evans · CBC News · Posted: Apr 18, 2018 10:09 AM ET | Last Updated: April 18

The Bank of Canada decided to keep its benchmark interest rate right where it is on Wednesday, but warned of rate hikes to come as inflation heats up.

The target for the overnight rate stays at 1.25 per cent. The central bank's rate impacts rates that Canadians get from retail banks for savings accounts and debt such as mortgages and lines of credit.
In justifying its decision, the bank warned that higher gas prices plus minimum wage hikes are expected to have a "transitory impact" on inflation in the short term, but it sees the rate staying at two per cent over the medium term — right in its target range.

"Inflation's at two per cent," governor Stephen Poloz said at a press conference after the decision was announced. "That's a good starting point because that's the destination."

The economy performed slightly weaker than the bank expected in the first three months of 2018, the central bank said, but it expects that to rebound in the latter half of the year.

"The economy is projected to operate slightly above its potential over the next three years, with real GDP growth of about two per cent in both 2018 and 2019, and 1.8 per cent in 2020," the bank said.

Higher rates 'warranted' over time

The bank said weakness in the housing market plus trade uncertainties are weighing on the economy's prospects, but it expects a boost from increased foreign trade, plus higher wages for Canadians.

All added up, the bank clearly signalled its intention to hike rates gradually.

"Higher interest rates will be warranted over time, although some monetary policy accommodation will still be needed to keep inflation on target," it said.

The bank's next scheduled announcement is May 30. Investors in financial instruments known as interest rate swaps predict about a 50/50 chance of a hike that day.

Economist Frances Donald with Manulife said she expects the bank to hike its rate the meeting after that, in July, but wants to make sure the uptick in the cost of living is sustainable first.

"Inflation recently has moved back to its two per cent target, but they are going to want to make sure that we stay there," she said in an interview with CBC News on Wednesday.

Toronto-Dominion Bank economist Brian DePratto agrees with that assessment, noting that on the whole the statement and accompanying monetary policy report was quite bullish.

"The core message sent today appears to be that Poloz and company remain set on further hikes, but are in no rush to get there," DePratto said.

Canada’s aging population keeping a lid on inflation: report

An aging population that takes on less debt is less sensitive to changes in interest rates

Investment Executive - James Langton

Canada’s aging population may be the reason that rock-bottom interest rates haven’t kickstarted inflation, or the economy, suggests a report from the C.D. Howe Institute published Tuesday.

Annual inflation has averaged just 1.5% over the past 10 years, coming in under the Bank of Canada’s 2% target, despite the bank’s efforts to boost inflation with highly stimulative monetary policy, the report from the Toronto-based think-tank says.

The report suggests that the aging population may be one reason for this, as older households tend to take on less debt, and are less sensitive to changes in borrowing rates.

“Canada’s aging population is likely a leading cause of the systematic undershooting of inflation we have seen since the financial crisis,” says Steve Ambler, one of the report’s authors, Steve Ambler, in a statement. “Specifically, an aging population that takes on less debt is less sensitive to changes in the interest rate.”

Low interest rates boost household spending and inflation, the report finds but that the impact is weaker when households are not as indebted, which is typically the case for older households. Monetary policy would have been more effective, the report suggests, if not for Canada’s aging population.

“If further population aging continues to reduce the effectiveness of monetary policy, this could eventually undermine Canada’s inflation-targeting regime,” Ambler says.

PayPal is going after the big banks

Online payment firm PayPal will soon offer basic banking options to its customers — a move that could be a nightmare for traditional banks.

New ways to bank could do away with the 'antiquated' trip to the branch

Peter Armstrong · CBC News

PayPal doesn't have a banking licence in the U.S., so it has teamed up with a handful of banks that do to offer traditional banking services to some of its customers. It's one of a few technology companies looking at getting into the banking business with a new model. (Jeff Chiu/Associated Press)

It is precisely the kind of thing that keeps the big banks up at night: the Wall Street Journal reported this week that PayPal is quietly piloting a program that would allow users to open traditional chequing accounts.

The online payment processing firm is one of a few technology companies thinking about getting into the banking business with a new model that could fundamentally alter our relationship with traditional banks and erode the simplest and oldest way they bring in new customers.

"If you're a traditional bank," says Alyson Clarke, principal analyst at research firm Forrester, "this is the stuff of nightmares."

For generations, the bank's best pipeline for new customers was the young people brought in by their parents to open their first account. The parents would take their kids to whichever bank they'd been using for years, and in most cases, Clarke says, those young people would grow up and stay with that bank for the rest of their lives.

But that could be changing.

"A lot of consumers, particularly millennials, think that all banks are basically the same," Clarke told CBC News. "And that old method of going into the branch to open your bank account with your mom or dad just seems completely antiquated."

Which is why PayPal is horning in on the big banks' turf at a time when they may be least able to withstand it.
For now, PayPal is only offering traditional banking services to a select group of its customers, who can get a debit card to withdraw cash from ATMs, deposit cheques by taking a picture and have their pay slips deposited directly into their account.

Chief Operating Officer Bill Ready says PayPal is targeting those who don't have a traditional bank account. That would presumably capture some of those referred to as "unbanked" customers, but would certainly include that younger generation that hasn't made an inaugural trip to a bank branch yet.

"If you don't have a bank account, you can't take an Uber ride, can't stay in a room on Airbnb," he told the Wall Street Journal.

Canadian options

For now, the pilot is only happening in the United States. But at least one expert says that model would be enormously successful here in Canada.
"Banks are not well loved in this country," says Conor Bill, managing director of investment firm Mt. Auburn Capital.

"If you have a reliable alternative that you never have to establish a relationship with a Bill says the licensing issue would be manageable in Canada. He says there are enough alternative banks here with which PayPal could make deals the way it did south of the border. More importantly, he says, PayPal would find a keen and willing pool of potential customers.

Canadians love technology

"Canadians are the fastest adopters of new payment mechanisms in the world," says Bill. "If someone can make it more convenient for us, we will drop our banking relationship as fast as you can snap your fingers."

Love of technology aside, Clarke says PayPal offers itself as a fundamentally different kind of company and business model. At its core, she says, PayPal is laser-focused on consumers and customer satisfaction.

The same cannot always be said about banks. "Traditional banks [are] really still product sellers," she said. "They're still focused on churning out product and making their fees through those underlying products."

Canada's big banks may seem monolithic. But pretend, for a second, that they had to compete for your business against a company like PayPal, which is offering you a bank account that lets you make deposits or withdrawals at ATMs and is also linked to your Uber account, or one that makes it quick and easy to pay for a night's stay in an Airbnb rental.

Now imagine the next step. Picture Amazon — which has also been in talks to offer traditional banking services to its customers — offering you a bank account that comes with free music streaming, free video streaming and next-day deliveries of anything you buy.

Wouldn't you bank there?

Some less recognizable tech companies are also exploring new banking models, including a peer-to-peer money transfer service called TransferWise.

But (and there's always a but) these next-generation financial institutions will have to contend with the single biggest factor that keeps the big banks thriving: customer apathy.

Canadians love to complain about their banks, but very few end up walking across the street to look for a better deal. That's why PayPal's plan to target younger users has so many analysts so excited.

Just don't bank on anything changing overnight.

Personal Investor: Tax scammers out in full force this season

By Dale Jackson BNN

They come by text, they come by email, and they come by phone. The Canadian Anti-Fraud Centre says the scammers are out in full force this tax season, and it's warning taxpayers to be on the lookout.

The Centre says fraudsters will typically call prospective victims and impersonate a Canada Revenue Agency (CRA) representative. The scam includes a claim that a recent audit has turned up problems from past returns and a demand for immediate payment. The demand is usually backed up by a threat that if the victim doesn't pay, they will face additional fees or even jail time. In some cases, immigrants are threatened with deportation.

Other scams involve an email or text message saying a refund is coming. The prospective victim simply has to click on a link that directs them to a fake CRA website asking for personal information such as a social insurance number, date of birth, and banking information. No refund is issued, but the fraudsters now have the victim's identity to commit further fraud.

The CRA has some tips for anyone contacted by someone claiming to be a CRA representative:

- In most cases, the CRA will use registered mail to contact consumers – not email or phone
- Contact the CRA directly to confirm you owe back taxes or are entitled to a refund
- Never provide personal information over the telephone, by text, or email
- The CRA would never request payment by money service business, iTunes gift cards or bitcoin

If you have already shared information, the CRA suggests contacting credit rating agencies Equifax and Trans Union to place fraud alerts on your account. If you've shared banking information, contact your financial institution to place alerts on your account.

GIC's

Looking for the best GIC rates. We are agents for several financial institutions that offer GIC's. There posted rates are usually better than banks. Please contact us for more info.

Travel Plans

Travel insurance

If you plan to travel abroad, you should purchase the best travel insurance you can afford before you leave Canada. Your travel insurance should include health, life and disability coverage that will help you avoid large expenses, such as the cost of hospitalization or medical treatment outside Canada.

If you are flying, being insured for flight cancellation, trip interruption, lost luggage and document replacement will save you from major disruptions and additional costs. If you are travelling by car, make sure you have driver and vehicle coverage in case you have an accident abroad.

You can purchase travel insurance through an insurance broker or your travel agent. Your credit card company may also offer travel and health insurance. Regardless of how you obtain travel insurance, it is very important that you understand the eligibility requirements, terms and conditions, limitations, restrictions and exclusions of the policy.

As insurance brokers, travel insurance can be purchased through our office. Please contact us for more information.

Insurance rates

For those of you who are looking for life insurance, here are some recent quotes. Monthly premiums, non smoker, 10 year term. Rates effective April 16, 2018

All rates subject to change.

	Male			Female		
Age	30	40	50	30	40	50
100K $	10.13	11.70	21.24	7.90	10.66	15.84
250K $	15.08	19.13	40.95	11.70	15.75	29.48

Life insurance is available through our office. Please contact us for more information.

Office News

We would like to welcome Raven Nyman our new support services administrator, who replaced Angie who has moved to the Okanagan.

Raven who grew up in the Clinton area, has moved back to the area after obtaining her Bachelor of Arts Degree from the University of BC.

If you have any family or friends that would like a second opinion of their portfolio, or need advice or have questions on retirement planning, insurance products, or other financial products, please let us know and we would be happy to meet with them. We would like to thank all of our clients for helping to make our business a continued success.

What Products Do We Offer?

Mutual Funds
Banking Products: GICs*, Savings Accounts, Mortgage Referrals
RRSPs, RRIFs, RESPs, LIFs, TFSAs
Non-Registered Investments
Guaranteed Income Products*
Segregated Funds *
Cancer Insurance *
Disability Insurance *
Term Life Insurance*
Universal Life Insurance *
Extended Health Plans *
Critical Illness Insurance *
Travel Insurance *
Investment Planning
Retirement & Estate Planning
Pension Plan Analysis
Referrals to Accounting, Mortgage and Legal Professionals

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Guaranteed Investment Certificates (GICs) are offered through Investia Financial Services Inc. and/or multiple carriers.

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