

Taking Stock with Steele

Your Monthly Newsletter

The purpose of this newsletter is to share insights and expertise. Our goal is to ensure that our clients are well-informed of changes affecting local business decisions and our investment recommendations.

We believe Knowledge Pays and we want our knowledge to help pay for you.

GENETIC TESTING AND LIFE INSURANCE WHAT IS A RIGHT AND AT WHAT COST?

In early March, **Bill S-201 – An Act to Prohibit and Prevent Genetic Discrimination** – passed a vote in the Canadian House of Commons. The bill would prohibit any person or entity (in reality, life insurers) from requiring that an individual undergo genetic testing or disclose the results of genetic testing as a condition of providing goods or services. The bill received unilateral support of the Conservative Party and the NDP, but was highly contested within the Liberal Party and Le Bloc Quebecois. It should be noted that the bill is not yet law and requires Senate approval.

Consumer advocates have hailed the bill as a win for human rights and privacy. Life insurance companies are still exploring ways to combat the bill, pointing to a study by the Canadian Institute of Actuaries that concluded **the passing of Bill S-201 would result in insurance premium price increases of 30% for men and 50% for women**. The reason for this conclusion is that individuals will be able to undergo genetic testing on their own prior to acquiring insurance and know beforehand if they have higher than average morbidity or mortality risk. Taking it one-step further, individuals who undergo genetic testing and find themselves with below average risk, may not opt to acquire insurance. Conversely, those who find themselves with above average risk may acquire more coverage or types of insurance (e.g. life, health, disability, critical illness) they would not have considered if they did not know their relative risk.

While some are confident of the bill's negative effects, some industry participants are unconcerned as current underwriting standards already include questions about family medical history, which captures much of one's genetic disposition to diseases and early death. That said, note that medical history only goes back two generations.

Our perspective is that the bill as it stands will cause insurance premiums to rise as the insurance customer is approaching the life insurer with more information than they are obligated to disclose. As a result, **the life insurer will add an additional premium to factor in this information asymmetry**. This is a fundamental tenet of economics. We doubt premiums will rise 30%-50% in the near term. Over the long term, 30%-50% may be reasonable as the degree to which premiums eventually rise will be a factor of future claims volume and insurance customer behaviour.

In our opinion, the fairest arrangement is for the applicant to provide the insurer with all information the applicant has at the date of application and that the insurer cannot require the applicant to undergo genetic testing. This is fair to the insurer, the applicant and the general population – which requires affordable insurance and shares the burden of risk. As Bill S-201 unlikely the fairest option, we see more iterations of the bill in the future.

Current Rates & Data

Govt of Canada

90 day	0.53%
1 year	0.65%
2 year	0.76%
5 year	1.11%
10 year	1.58%
30 year	2.25%

U.S. Treasury

90 day	0.81%
1 year	1.05%
2 year	1.25%
5 year	1.87%
10 year	2.34%
30 year	2.97%

Canada Prime Rate

2.70%

U.S. Prime Rate

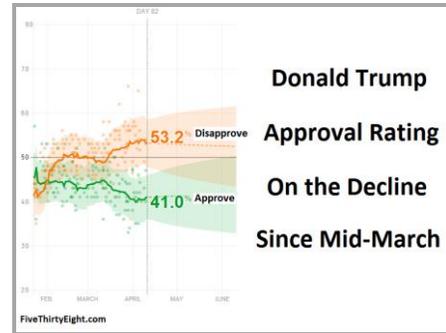
4.00%

Exchange Rates

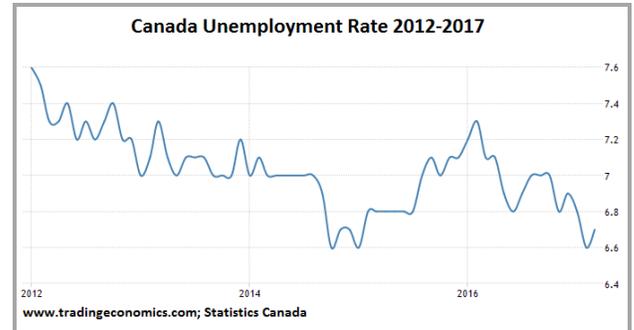
CAD/USD	0.750
USD/EUR	1.060
JPY/USD	109.7

ECONOMIC TIDBITS TRUMP'S DEALMAKING ABILITIES IN DOUBT & CANADA UNEMPLOYMENT AT CYCLE LOWS

- In late March, the Trump administration was unable to garner enough congressional support for the American Health Care Act, which was designed to repeal and replace “Obamacare”. This failure cast doubt on Trump’s ability to garner support for his changes to tax policy and business regulations. House Speaker Ryan has since said that changing tax policy will be more difficult than health care.



- From an employment standpoint, the Canadian economy has completely recovered from the energy market rout that began in 2014. In March 2017, the Canadian unemployment rate is back down to cycle lows at 6.7%. This Canada wide unemployment rate hides disparities between provinces. Albertan unemployment remains high while unemployment in Ontario, Quebec and B.C. is at or near cycle lows.



LE JIT A “JUST-IN-TIME” RUNDOWN OF OUR CURRENT INVESTMENT THEME

Rapidly Growing Tech Giants That Aim Provide the Commercial Infrastructure of the Future

- **Amazon Inc. (AMZN-US)** and **Alphabet (GOOG-US)** are two ideas related to this theme.
- **Amazon** is the world’s largest online retailer. Superficially, Amazon appears expensive at ~180x trailing earnings and ~3.2x trailing sales. We prefer to look at Amazon’s valuation should they normalize their research and development (R&D) spending to the industry average, which is roughly half of its current R&D spending, as the day will come when Amazon does not need to spend excessively on R&D and pricing this into AMZN’s terminal valuation is not sensible. Doing so results in a trailing P/E ratio of ~50x which is more reasonable. AMZN’s unmatched competitive position and its above average R&D spending are resulting in 20%+ annual revenue growth which is beyond peers’ growth rates somewhat justifying its above average valuation. That said, the stock could come under pressure if its growth rate slows.
- **Alphabet** operates the Google search engine among other things. Alphabet trades in line with its historical valuation at 30x trailing earnings and 28x ex-cash. Alphabet has been growing at a 15%-20% growth rate for many years and it seems like this growth will not stop any time soon. Given its exposure to futuristic trends, such as self-driving cars and wearable technology, there is an argument that Alphabet should trade at a premium to its historical valuation. Alphabet appears to be on the right side of many technology trends. That said, the stock could come under pressure if its growth rate slows.
- Feel free to ask a member of our team for more information on these securities.

JEANNINE’S TIP O’ THE MONTH May is Raymond James Cares Month

At Raymond James, we share a desire to be socially responsible and recognize the importance of supporting our communities. Among the many initiatives we are involved in, we are proud to say that Steele Wealth Management and the Waterloo branch will be the presenting sponsor of the **Westmount Oktoberfest Charity Pro-Am in support of the Waterloo Region Suicide Prevention Council**. Thanks to #WRSPC and #WestmountGolfCC for the opportunity. #MyLifeMatters

This newsletter has been brought to you by Steele Wealth Management

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