

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.

INVESTOR SENTIMENT DOES IT EVEN MATTER?

If you have watched business television lately, you'll have come across a pundit exclaiming that the market cannot decline when so many people expect it to do so. Though we suspect that many pundits use anecdotal information like "my five friends are bearish so everyone must be bearish" to support their market stance, it does raise a good question. Can the market decline when everyone expects it? **Yes.** Here's why...

Issues with Sentiment Measurement

The reliability of sentiment data is weak because sentiment is measured through investor surveys. Emotions and biases may take control when answering questions like "In the near term, would you call yourself bullish, bearish or neutral?"

Sentiment is Short-Term and Clouded by Current Events

Sentiment and investor surveys in general tend to measure current feelings. If the market is falling, sentiment is poor, if it is rising, sentiment is strong. Bearish sentiment tends to rise following negative events but when the dust settles and market begins to recover, bearish sentiment tends to fall and bullish sentiment tends to rise.

Different Sample Groups Lead to Different Sentiment Results

Different surveys present different results. Individual investors tend to react to current events and market declines more so than professional investors. For example, an August 6th survey of individual investors showed that more individual investors are bears than bulls, and intuitively so, as the S&P 500 had its worst week in 15 months. Alternatively, an August 8th survey of investment advisors shows extreme bullishness, a level not seen since 1987. Neither survey predicts market long-term returns well.

RIDING THE CURVE A CATALOGUE OF OUR MONTHLY FIXED INCOME FAVOURITES

Manulife Preferred I (MFC.PR.I)

- Manulife is one of the largest life insurance companies in the world
- The shares are callable or reset at 2.86% + the 5-year GofC bond on Sept 19th, 2017
- At \$26.19, the issue has a yield-to-call (soft) of 2.97% and is rated Pfd-2H

Artis REIT Debenture F (AX.DB.F) Maturing June 30th, 2020

- Artis is a mid-sized industrial REIT with properties in Toronto and the mid-west
- This is a 5.9 yr debenture with a conversion price of \$15.50 (current price of \$15.75)
- This debenture yields 4.72% until maturity at a current trading price of \$106.50

Current Rates & Data

Govt of Canada

90 day	0.94%
1 year	1.01%
2 year	1.07%
5 year	1.53%
10 year	2.09%
30 year	2.65%

U.S. Treasury

90 day	0.03%
1 year	0.09%
2 year	0.42%
5 year	1.60%
10 year	2.44%
30 year	3.27%

Canada Prime Rate

3.00%

U.S. Prime Rate

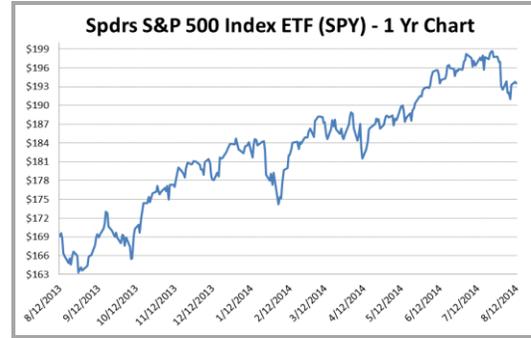
3.25%

Exchange Rates

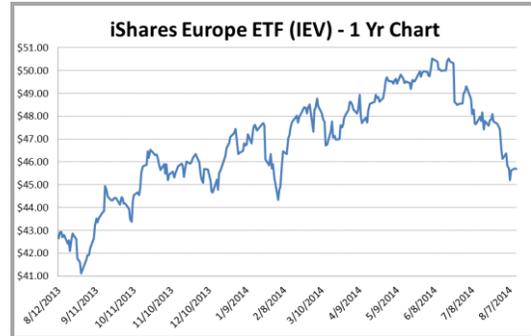
CAD/USD	0.915
USD/EUR	1.336
JPY/USD	102.5

ECONOMIC TIDBITS *GEOPOLITICAL RISKS ON THE RISE & THE ECB HITS THE LOWER BOUND*

- Equity markets fell in response to heightened tensions in Ukraine and Iraq. Russia amassed troops along the Ukrainian border, sparking worries about a Russian invasion. The West added to their **sanctions on Russia** and Russia responded with **sanctions against the West**. Further adding to worries, the U.S. initiated an air strike program in support of the ruling Iraqi government.



- With July inflation data of **only 0.4%** year-over-year, the Italian economy in **recession**, a bank **failure** in Portugal and Europe and Russia playing **tit-for-tat** with sanctions, contracting the trade and economies of Eastern Europe and Germany, Europe is on the brink of recession. Without a concerted effort to restart growth in the region, we may revisit the European debt crisis soon.



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

Canadian Laggards Turned Leaders to Watch Out For

- Tim Hortons (THI)** and **Loblaw Companies (L)** are two investment ideas related to this theme.
- As recently as 2012, **Tim Hortons** was a stale brand with negative to flat same store sales growth and weak overall growth prospects. How quickly things can change! THI recently released its Q2 2014 earnings report highlighting same store sales growth of 2.6% in Canada and 5.9% in the U.S., far ahead of expectations of 1.4% and 2.3%, respectively. New menu items like the Crispy Chicken sandwich and Frozen Hot Chocolate brewed some excitement for customers in the quarter. These gains were made in spite of same store sales growth in the range of -2% to +2% for most of THI's competitors. We believe the boost in U.S. same store sales supports THI's U.S. expansion plans and provides THI with a fairway of growth that is virtually nonexistent for most other fast-serve restaurants. THI looks attractive at 22x trailing earnings for a company with 10%+ y-o-y revenue and earnings growth.
- Loblaw** stock languished in the years 2006-2012 as company strategy was unclear and nothing was executed well. With the help of Loblaw's recent Shoppers Drug Mart acquisition, Loblaw led all grocery stores in same store sales growth in Q2 2014 at 1.8%. Loblaw's potential for above average earnings growth through stock buybacks, cost and revenue synergies with Shoppers and its focus on the faster growing fresh foods segment, Loblaw appears ready to take back market share lost during its dark years.
- Feel free to ask a member of our team for more information on these securities.

JEANNINE'S TIP O' THE MONTH ENTERTAINING. INSPIRING. THOUGHT-PROVOKING. ARE YOU GOING?

Willing Wisdom w/ Dr. Tom Deans

Register now at <http://events.SignUp4.com/wwri> or call (519) 883-6030

This newsletter has been brought to you by Steele Wealth Management

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