

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.

LATEST CANADIAN FEDERAL ELECTION POLL NDP PARTY PULLS AWAY

Fiscal conservatives and Canadian stock market investors can officially start to worry about a potential NDP victory in the Canadian federal election scheduled for October 19th. After an unexpected victory in May's Alberta provincial election, the NDP is making ground in all provinces. **A poll conducted by Forum Research on August 2nd showed that 39% of voters intend to vote for the NDP**, well ahead of the 28% and 25% support for the Conservative and Liberal parties, respectively. The poll concluded that the NDP would bring in 160 seats, just 10 short of a majority, so only a slight increase in votes could lead to **Canada's first federal NDP majority government**.

The NDP party promises support for the working poor with pledges to provide \$15/day childcare, \$15/hour minimum wage (for federal employees) and a CPP/OAS retirement age set at 65, and for the environment with its pledge to introduce higher carbon taxes. These pledges come at a high cost. The carbon tax pledge reduces corporate profit margins directly while the others will likely be funded through higher corporate taxes, as the party has so far stated they will fund new programs solely from corporate taxes. If the NDP secures power and follows through on these pledges, it would create a hostile environment for big business. **We would expect domestic companies to reduce capital spending and payrolls as business sentiment sours and foreign capital to flee the Canadian dollar and Canadian securities in general.**

The recent NDP victory in Alberta resulted in a notable decline in the share prices of Canadian energy companies and companies headquartered in Alberta in general. In the event of a federal NDP victory, we expect Canadian equities and Canadian dollar to come under pressure. For those investors who are "Canada-centric", **now may be a good time to diversify.**

RIDING THE CURVE A CATALOGUE OF OUR MONTHLY FIXED INCOME FAVOURITES

Loblaw Perpetual Preferred B (L.PR.B)

- Loblaw is Canada's largest food retailer and owns the PC and Joe Fresh brands
- At \$25, the issue has a yield of 5.3% versus the yield on bank perpetuals of ~5.1%

BMO Perpetual Preferred Z (BMO.PR.Z)

- Bank of Montreal is Canada's fourth largest bank
- At \$24.10, the issue has a yield of 5.2% versus the yield on bank perpetuals of ~5.1%

Current Rates & Data

Govt of Canada

90 day	0.37%
1 year	0.43%
2 year	0.44%
5 year	0.77%
10 year	1.42%
30 year	2.10%

U.S. Treasury

90 day	0.10%
1 year	0.36%
2 year	0.68%
5 year	1.55%
10 year	2.17%
30 year	2.85%

Canada Prime Rate

2.70%

U.S. Prime Rate

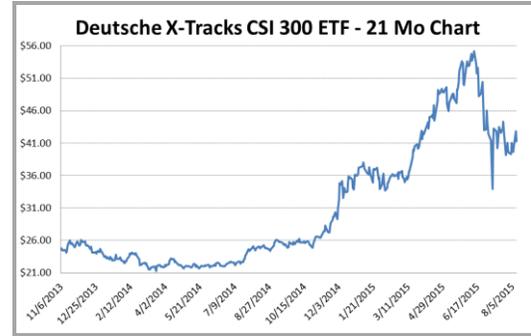
3.25%

Exchange Rates

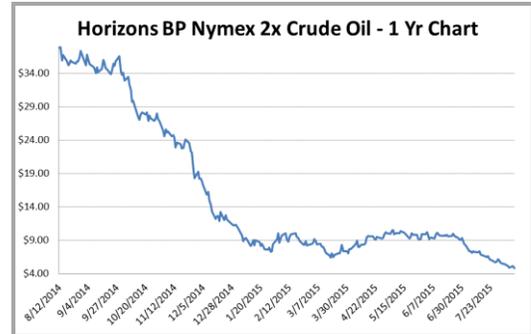
CAD/USD	0.762
USD/EUR	1.104
JPY/USD	125.1

ECONOMIC TIDBITS CRISIS IN CHINA? HARDLY! & THE WORLD IS AWASH IN OIL FOR THE TIME BEING

- With the Shanghai Composite down ~25% since June, the Chinese market “crash” has dominated the headlines. The government’s seemingly desperate actions to support stock prices and devalue currency to support the economy haven’t helped. That said, the Chinese situation is hardly noteworthy as the media tends to omit that the Shanghai Composite is **still up 92% since July 2014**.



- Oil prices have been retesting their early 2015 lows recently. China’s slowing growth rate and Japan restarting its nuclear fleet has reduced oil demand expectations while **a 3 year high for OPEC oil production** due to rising Iranian production has increased oil supply expectations. It seems like low oil prices are here to stay until some geopolitical event alters the current state of affairs.



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

Beaten Down Stocks Well On Their Way to Turning Their Fortunes Around

- **Open Text (OTC)** and **Sysco (SYY)** are two investment ideas related to this theme.
- **Open Text** is a leading developer of enterprise information management software. From February to July 2015, Open Text shares fell 38% from an all-time high to an 18 month low following two poor quarterly reports showing double digit declines in revenues and earnings. At the time, the shares traded at the very low valuation of 16.5x the new depressed earnings level and 11x normalized. More recently, in late July, Open Text released quarterly earnings that blew away expectations and achieved revenues and earnings that were in line with Open Text’s normalized levels and the shares now trade at ~13x normalized earnings. Open Text was able achieve this despite gloomy reports released by direct competitors IBM and Oracle in June and July. As the recent dip in revenues and earnings was not company specific and Open Text appears on track, it is likely the shares could once again trade at the ~20x normalized earnings level.
- **Sysco** is North America’s #1 food distributor. It recently lost a battle with the FTC to purchase the #2 food distributor and its shares fell to a 9-month low as a result. After the failed acquisition, Sysco turned its focus to stock buybacks, leveraging up its underleveraged balance sheet and making smaller tuck-in acquisitions. Though the inability to complete the acquisition is a negative, the market research conducted in the process should allow Sysco to come out a much more intimidating competitor.
- Feel free to ask a member of our team for more information on these securities.

JEANNINE’S TIP O’ THE MONTH HAVE YOU EVER MADE HEALTH CARE DECISIONS FOR SOMEONE ELSE?

You may be interested in attending this free workshop at the Kitchener Public Library on September 29th. For details and additional locations visit acpww.ca. If you live out of town and cannot attend, visit advancecareplanning.ca to learn more.

This newsletter has been brought to you by Steele Wealth Management

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