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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.

MARKET COMMENTARY WHAT LOWER OIL PRICES MEAN FOR YOUR PORTFOLIO

In response to the historic 40% oil price decline over the past six months, our team recently wrote a piece called "What Lower Oil Prices Mean for Your Portfolio". Below are some of the highlights of this piece.

Why did the oil price rout happen?

Rapidly expanding oil production in North America, reaching a high not seen since 1965, combined with restored oil production in much of the Middle East's most violent hotspots (e.g. Iraq, Libya, part of Syria) resulted in a well-supplied oil market. As global economic growth has been lacklustre for several years, the demand side has not grown much relative to supply. In November, OPEC stated that they will not cut supply to support prices, further exacerbating the decline.

Who Benefits?

Almost everyone. We estimate about 5 of 6 households should see an economic benefit due to lower oil prices. Most households, corporations and governments, outside of Alberta, Saskatchewan and Newfoundland, should benefit as costs go down and these entities benefit from lower transportation and energy expenses and a lower Canadian dollar. Corporations with revenues tied to discretionary spending (e.g. Canadian Tire, Lowes, Wal-Mart, Nike, McDonalds, Sysco) and those with high transportation expenditures (e.g. Algoma Central, TransForce) will benefit.

Who Suffers?

Most households, governments and corporations in oil producing provinces/states. Oil production, services and transportation companies will feel the most pain.

Full article: www.raymondjames.ca/steelewealthmanagement/market_commentary.aspx

RIDING THE CURVE *A CATALOGUE OF OUR MONTHLY FIXED INCOME FAVOURITES*

PIMCO Monthly Income Fund (PMO005)

- PIMCO MIF is a global "go-anywhere" fixed income fund which seeks to maximize current income, preserve capital and attain capital appreciation when possible
- Targets a 4% annual distribution and as of 10/31, the fund has a duration of 3.2 yrs

RioCan REIT Preferred C (REI.PR.C)

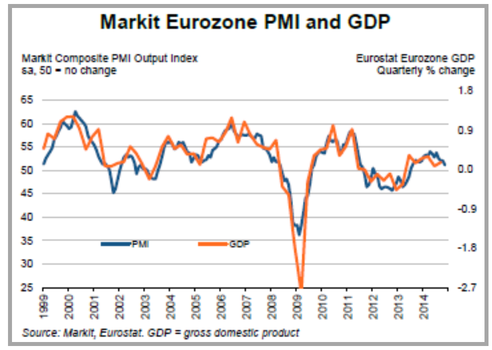
- Is the largest Canadian REIT by market cap and one of the largest retail REITs globally
- The shares are callable or reset at 3.18% + the 5-year GofC bond on June 30th, 2017
- At $25.45, the issue has a yield-to-call (soft) of 3.77% and is rated Pfd-3H

Current Rates & Data

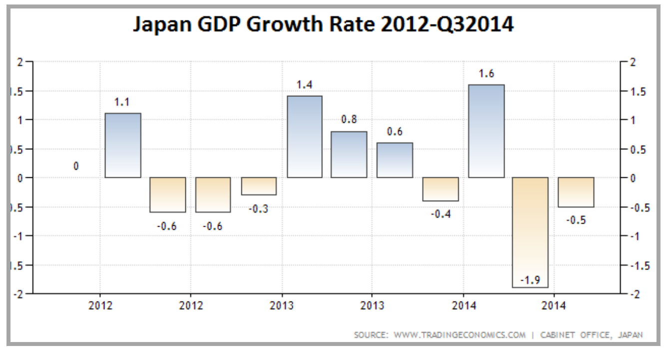
Govt of Canada	
90 day	0.86%
1 year	0.96%
2 year	1.01%
5 year	1.41%
10 year	1.86%
30 year	2.40%
U.S. Treasury	
90 day	0.03%
1 year	0.22%
2 year	0.61%
5 year	1.61%
10 year	2.21%
30 year	2.87%
Canada Prime Rate	3.00%
U.S. Prime Rate	3.25%
Exchange Rates	
CAD/USD	0.871
USD/EUR	1.244
JPY/USD	117.9

ECONOMIC TIDBITS *EUROPE IS STILL THE WORLD'S SICK MAN BUT JAPAN MAY BE SICKER*

- European economic activity, as measured by the Eurozone PMI, fell to 51.4, the lowest point in 16 months. **Greece** is once again a worry as Greek PM Samaras called a snap presidential election and if his coalition cannot secure 60% of the vote, a parliamentary election will be held. Polls show that Syriza, the radical left-wing, anti-bailout and anti-austerity party is currently favoured by voters.



- Japan slipped into recession in Q3 as GDP has contracted 2.2% (8.8% annualized) since Q1 in response to a sales tax hike. In reaction to the news of recession, the Bank of Japan unleashed more stimulus and PM Abe delayed a second sales tax hike scheduled for 2015 and **called a snap election** to consolidate power and provide him with more time to spark growth and inflation.



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

Top Picks in a Low Oil Price World

- **Algoma Central (ALC)** and **TransForce Inc (TFI)** are two investment ideas related to this theme.
- **Algoma Central** owns the largest dry-bulk cargo fleet in the Great Lakes as well as real estate in Southern Ontario. Algoma's tankers run on low-grade oil and though most contracts include provisions to compensate for near-term changes in fuel costs, a reduction in the long-term price of oil could have a material impact on Algoma's long-term margins and profitability. Lower oil prices could spark greater economic and export activity in the Great Lakes, boosting Algoma's revenues at a time when expenses are declining. Algoma is attractive when you add these improving trends to Algoma's valuation of 14.5x trailing earnings and net debt of $60M (or net cash of $100M if Algoma monetized its real estate).
- **TransForce** has Canada's largest trucking fleet and also runs one of North America's largest courier businesses. Many of TransForce's trucks run on diesel fuel and will see meaningful cost savings as a result of the decline in oil prices. TransForce, and its competitors, will likely capture some of the cost savings while passing the rest onto its customers, sparking an increase in economic and export activity and a higher level of revenues for TransForce's businesses. TransForce recently acquired some less efficient trucking businesses at low valuations which will benefit greatly from an improved cost structure.
- Feel free to ask a member of our team for more information on these securities.

JEANNINE'S TIP O' THE MONTH NEW SEARCH FEATURE ON THE SWM WEBSITE!

You may notice that at the bottom of the left pane on our website is a search bar. Enter keywords to more easily explore our website including past Taking Stock with Steele Newsletters, PIMG Quarterly Commentaries and other info pieces.

This newsletter has been brought to you by Steele Wealth Management

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