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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.

U.S. PRESIDENTIAL PRIMARIES HOW ARE THEY SHAPING UP?

U.S. voters have long disregarded the potential of left-leaning Sanders, right-leaning Cruz or unconventional Trump running for president in 2016. With a Cruz primary victory in Iowa and Trump and Sanders primary victories in New Hampshire, this potential is disregarded no more. None of the Republican "establishment" candidates (e.g. Rubio, Bush, Kasich) pulled away from the pack in these two primaries. In fact, Cruz and Trump garnered 60% of these delegates.

Like many countries around the world, U.S. voters feel so marginalized that they are voting for candidates that were recently disregarded as too risky. The downside is that in casting a vote against the establishment, it could spell disaster for the U.S. economy. A potential upside is that voters may feel so disenfranchised that they vote for an independent candidate.

A **Trump presidency** could result in economic collapse, as his platform is highly protectionist and would likely inhibit U.S. trade. His stable of protectionist policies is highly reminiscent of those that were cited as the key reason for the Great Depression in the 1930s. Further, as Trump wishes to reduce taxes significantly, it is likely that income and wealth inequality would skyrocket to all-time highs from their already elevated level. Though it is unlikely he would be able to get many, if any, of his policies enacted as is, due to the need for Congress and Senate approvals, he may be able to use his presidential veto power to get watered down policies enacted.

A **Cruz presidency** could have materially negative effects on the economy simply due to the drastic changes he proposes. Cuts to government spending and health care, the initiation of a flat tax and a harsh illegal immigration policy could materially impact economic growth and will likely cause greater income and wealth inequality. That said, like a Trump presidency, it is unlikely that his policies would be enacted as is.

A **Sanders presidency** could be highly stimulative to the economy in the early stages as it involves vastly higher government spending. His policies would improve income and wealth inequality, at least for a short period. That said, this spending could result in vastly higher government debt levels and could hurt the U.S. economy's long-term growth rate. Like the two above, it is unlikely that his policies would be enacted as is.

Consensus among centrists is that there is a greater likelihood of **Michael Bloomberg** running as an independent candidate following the first two primaries. We believe Bloomberg throwing his hat in the ring would be good for equity markets as it would alleviate concern about who will win the presidency in 2016. If he does so, we predict either a Clinton or Bloomberg victory, which would result in little change to current fiscal policy and government programs.

Current Rates & Data

Govt of Canada

90 day	0.44%
1 year	0.45%
2 year	0.46%
5 year	0.62%
10 year	1.13%
30 year	1.93%

U.S. Treasury

90 day	0.30%
1 year	0.53%
2 year	0.77%
5 year	1.26%
10 year	1.77%
30 year	2.62%

Canada Prime Rate

2.70%

U.S. Prime Rate

3.50%

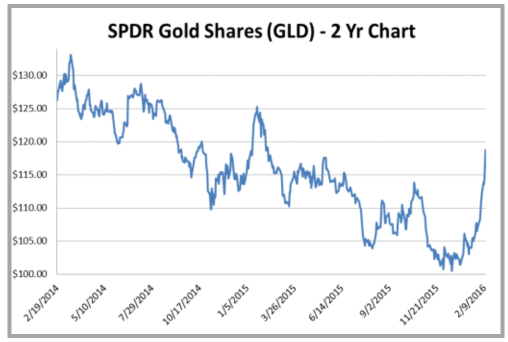
Exchange Rates

CAD/USD	0.730
USD/EUR	1.101
JPY/USD	113.2

ECONOMIC TIDBITS RJL IASG GETS MORE DEFENSIVE & GOLD SPIKES ON INVESTOR ANXIETY

- On Jan. 22, the Raymond James Ltd. Investment Advisory Strategy Group (IASG) reduced its recommended equity allocation and increased its recommended cash allocation to 7% (from 2%). This recommendation is in response to weakening economic fundamentals and stock market technicals. The IASG still sees positive equity returns in 2016, but believes extra caution is warranted.

- In reaction to the declining U.S. dollar, declining U.S. interest rate expectations, and the weakness in European bank shares, the price of gold has rallied sharply, trading at US$1240 on Feb. 11, up from US$1060 on Dec. 31. It is our belief that the rally in gold is merely a reflection of short-term uncertainty and does not reflect a change in the trend of rising U.S. interest rates and U.S. dollar appreciation.



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

Serial Acquirers Trading at a Major Discount to Past Valuations

- **Cara Operations (CAO)** and **AutoCanada (ACQ)** are two investment ideas related to this theme.
- **Cara** franchises and/or operates restaurant brands including Swiss Chalet, Harvey's, East Side Mario's, Montana's, Milestones, Casey's, Prime Pubs, New York Fries, Bier Markt and Landing restaurants. Cara is the third largest restaurant operator in Canada, behind McDonalds and Restaurant Brands (i.e. BK/Tim Hortons). Cara trades at 10x 2-yr forward EV/EBITDA (based on RJ estimates) which is roughly in line with our benchmark of CAO's peers. We believe Cara should trade at a material premium to peers due to its lack of debt and ability to acquire companies/brands using debt, its limited footprint outside of Ontario (72% of all locations are in Ontario), its long list of restaurant brands which offers the ability to drive sales and attain loyalty through a single loyalty program, its ability to offer different versions of its current restaurants (e.g. restaurant groupings like Swiss Chalet/Harvey's combination fast food restaurants) and its long list of recipes under its control, which allows for unmatched retail licensing opportunities.
- **AutoCanada** is Canada's largest multi-location automobile dealership group and operates 54 dealerships in eight provinces. The company derives ~50% of its revenues from the province of Alberta. As Alberta auto sales expectations have been in decline since mid-2014, as a result of the oil price collapse, AutoCanada shares have been extremely weak, falling 80% from their June 2014 peak. The shares now trade at 10x trailing earnings, in line with U.S. peers, despite its higher long-term expected growth rate.
- Feel free to ask a member of our team for more information on these securities.

JEANNINE'S TIP O' THE MONTH **New Look for the Steele Wealth Management Website**

Take a gander at our new website at www.SteeleWealthManagement.com.

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