

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.

PORTFOLIO PLANNING THE PERMANENCE OF OIL SANDS COMPANIES

Most Oil Sands Projects Have Lives of 20-70 Years But Will They Last That Long?

With the rapid rise in North American light oil and natural gas production, many market strategists and energy experts are beginning to question whether Canada's expensive, carbon intense and landlocked heavy oil resources will be developed to the degree that many have predicted. Furthermore, technologies like electric and self-driving cars are becoming more of a reality and are beginning to attract consumers.

Tesla CEO Elon Musk's Push to Change the World for the Better

Musk's plan to build a network of 20 minute supercharging and 90 second battery-swapping stations covering 98% of the North American population by 2015 may be what turns the tide toward full consumer adoption of electric vehicles. Add to this the need for constant power to supply increasingly complicated on-board computer systems (e.g. self-driving) and the pivot towards electric vehicles may well be certain.

If All Vehicles Are Electric Vehicles, What Does This Mean For Oil Sands Companies?

- In North America, ⅓ of all oil is used in transportation (~45% is used by light vehicles)
- Oil demand would fall while natural gas demand would rise (for power generation)
- High cost oil producers (e.g. oil sands companies) could struggle to finance their debt

Even with a more economical way to ship oil (e.g. Keystone XL), oil sands producers may find it difficult to justify their current and future operations as high shipping costs put the total cost of production well above most other sources of North American oil.

It is important to note that innovation and conservation combat the oil sands story.

RIDING THE CURVE A CATALOGUE OF OUR MONTHLY FIXED INCOME FAVOURITES

Timbercreek MIC Debenture (TMC.DB) Maturing March 31st, 2019

- Invests primarily in mortgages on income producing properties in Canada
- This is a 5 yr debenture with a conversion price of \$11.25 (current price of \$9.40)
- This debenture yields 6.35% until maturity at a current trading price of \$100.00

Pembina Pipeline Preferred E (PPL.PR.E)

- Pembina owns and operates oil and gas pipelines and storage facilities in Canada.
- The shares reset at 3.00% + the 5-year GofC bond on June 30th, 2019
- At \$25.33, the issue has a running yield-to-maturity (soft) of 4.73% and is rated Pfd-3

Current Rates & Data

Govt of Canada

90 day	0.88%
1 year	0.94%
2 year	1.01%
5 year	1.65%
10 year	2.47%
30 year	3.06%

U.S. Treasury

90 day	0.03%
1 year	0.11%
2 year	0.31%
5 year	1.52%
10 year	2.75%
30 year	3.70%

Canada Prime Rate

3.00%

U.S. Prime Rate

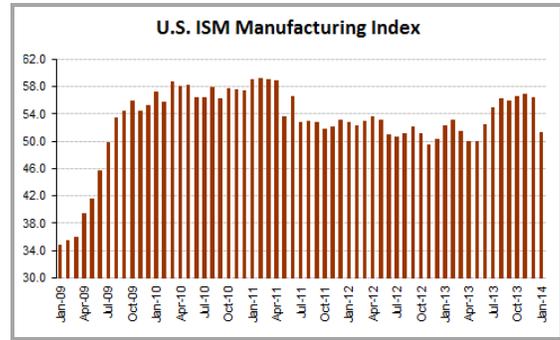
3.25%

Exchange Rates

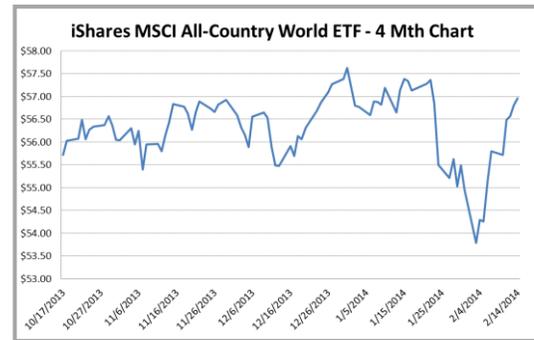
CAD/USD	0.911
USD/EUR	1.370
JPY/USD	101.8

ECONOMIC TIDBITS *THE FED STARTS TO TAPER & CANADIAN HOUSING CONTINUES TO ROLL*

- The U.S. growth engine stalled in the month of January as revealed by the U.S. ISM Manufacturing Index (**51.3 vs. the 56 expected**) and U.S. Non-Farm Payrolls Survey (**113,000 vs. the 181,000 expected**). Weather has been noted as a negative factor but other data points (e.g. U.S. ISM Non-Manufacturing, Chicago PMI) were in-line with expectations, casting doubt on this explanation.



- In January, emerging equity and currency markets experienced one of their greatest isolated bouts of volatility and losses since the Asian Financial Crisis of 1997. **Emerging currencies and equities plunged** and this weakness reverberated through Western markets with U.S. and European markets falling by over 5%. Canadian markets were spared as gold miners rallied.



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

Local Stocks Finally Showing Some Life After Years of Difficulties

- **Sandvine Corp (SVC)** and **RDM Corp (RC)** are two investment ideas related to this theme.
- **Sandvine** had an exceptional 2013, experiencing year-over-year revenue growth of ~21% as of fiscal year end in November 2013. Sandvine currently trades at ~ 34x trailing earnings and 25x ex-cash which is fair for a company experiencing 20%+ growth. A recent ruling by the U.S. Court of Appeals against net neutrality could pave the way for increased adoption of Sandvine’s products and services.
- **RDM** also saw strong growth in 2013 with year-over-year revenue growth of ~21% as of fiscal year end in December 2013. RDM currently trades at ~20x trailing earnings and 11x ex-cash. Some question the longevity of RDM’s product suite but with remote cheque deposit capture services just beginning to catch on, there is likely plenty of room to grow before longevity becomes an issue.
- Feel free to ask a member of our team for more information on these securities.

JEANNINE’S TIP O’ THE MONTH *IMPORTANT TO KEEP YOUR COVERAGE UP TO DATE*

Insurance Review

It is a good idea to review your insurance from time to time. Do you have adequate life insurance, disability (and/or critical illness) insurance and long-term care insurance? Home and Auto policies should also be review to ensure your family and property are fully covered.

Our team can help analyze your insurance coverage and determine your insurance needs.

This newsletter has been brought to you by Steele Wealth Management

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