

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 OIL PRICES AND CANADIAN GROWTH AND INTEREST RATES

Oil is currently trading at ~\$54 CAD (WTI), down from \$116 CAD in June 2014. Lower oil prices will impact on inflation and economic growth expectations which in turn determine interest rate expectations.

What is Oil's Effect on Canadian Price Inflation?

Gasoline amounts to ~5% of the weighting in the Consumer Price Index (CPI) so a 50% decline in oil prices amounts to a 1.25% decline in general price levels. Further, oil is a major input and indirect influencer on another ~75% of the CPI. The decline in oil will have an immediate impact on price levels in the near-term and potentially depressing inflation going forward due to capital and labour flight from Canada.

What is Oil's Effect on the Canadian Economic Growth?

The Conference Board of Canada was the first to predict an Albertan recession and many more will do the same if 2015 oil price expectations fall to \$50-\$60 CAD from \$70-\$80 CAD currently. The other oil producing provinces, Newfoundland and Saskatchewan will likely see minimal growth while the economies of Ontario and Quebec are expected to improve. The key questions are "How quickly will consumer spending, capital expenditures and employment fall in Alberta?" and "How quickly will consumer spending, new capital investment and employment rise in Ontario?". If Alberta slows before Ontario grows the Canadian economy could struggle in 2015.

Since December, interest rate expectations shifted dramatically from a near-term interest rate hike to interest rate cut. Bond yields are near record lows signaling a risk of recession. On January 21st, the Bank of Canada cut its key interest rate by 0.25%.

RIDING THE CURVE A CATALOGUE OF OUR MONTHLY FIXED INCOME FAVOURITES

Enbridge Preferred N (ENB.PR.N)

- Enbridge operates the world's longest crude oil and liquids transportation system
- The shares are callable or reset at 2.65% + the 5-year GofC bond on Dec. 1st, 2018
- At \$23.65, the issue has a yield-to-call (soft) of 5.66% and is rated Pfd-2L

Fairfax Financial Preferred C (FFH.PR.C)

- Fairfax provides property, casualty, life and re-insurance globally
- The shares are callable or reset at 3.15% + the 5-year GofC bond on Dec. 31st, 2019
- At \$23.20, the issue has a yield-to-call (soft) of 6.43% and is rated Pfd-3

Current Rates & Data

Govt of Canada

90 day	0.90%
1 year	0.92%
2 year	0.83%
5 year	1.04%
10 year	1.48%
30 year	2.04%

U.S. Treasury

90 day	0.02%
1 year	0.16%
2 year	0.50%
5 year	1.29%
10 year	1.78%
30 year	2.36%

Canada Prime Rate

3.00%

U.S. Prime Rate

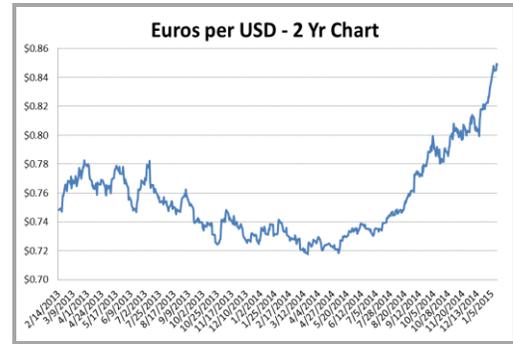
3.25%

Exchange Rates

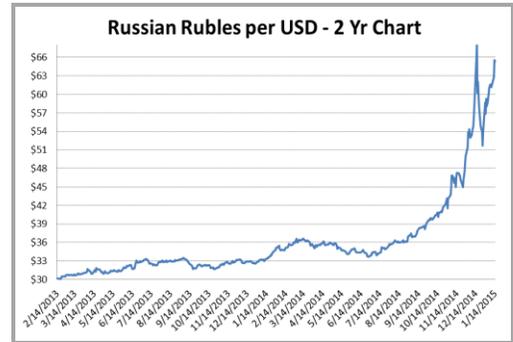
CAD/USD	0.809
USD/EUR	1.159
JPY/USD	117.9

ECONOMIC TIDBITS *GREEK ELECTIONS COULD ROCK EUROZONE & OIL'S SECOND-ORDER EFFECTS*

- The Euro fell to a nine year low versus the U.S. dollar as **Greece is set to hold a general election** in late January. Syriza, the party most likely to win, has promised to demand 50% debt forgiveness of Greek public debt and the reversal of the EU-mandated austerity measures. This hard line strategy could result in Greece’s removal from the EU and create unquantifiable financial stress.



- The decline in oil as well as slowing global growth is having a meaningful yet varied effect on global inflation expectations. Oil consuming economies, the U.S. and EU saw inflation expectations fall dramatically while oil producing economies Russia and Venezuela are dealing with rapid currency depreciation and borderline hyperinflation. **Either situation can be destabilizing.**



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

January is Often a Good Month to Take a Look at Higher Risk Canadian Small Cap Technology Stocks

- **Avigilon (AVO)** and **Neulion (NLN)** are two investment ideas related to this theme.
- **Avigilon** sells high quality cameras for security and defense purposes. The stock trades at 27x trailing earnings (21x ex-cash) and after a couple of earnings misses in early 2014, they reported an earnings beat in early November. The company has experienced annual revenue growth of greater than 50% over the past several years and continues to grow at a rapid pace. Avigilon’s largest pure play peer and competitor trades at 30x trailing earnings and 26x ex-cash so there is room for upside in Avigilon’s valuation.
- **Neulion** specializes in digital video broadcasting, distribution and monetization. Neulion powers such platforms as NFL GamePass, NBA GameTime, NHL GameCenter Live, UFC TV and MLS Live. Neulion is also an integral player in broadcasting college sports across North America. Neulion recently acquired DivX boosting its ability to distribute 4K video and “over-the-top” services and adds device manufacturers like LG, Samsung and Toshiba as key customers. Neulion trades at a fairly rich 75x trailing earnings but it has no net debt outstanding. Despite its high valuation, Neulion is attractive as the leader in one of the most undeveloped, fastest growing and highest margin tech segments.
- Feel free to ask a member of our team for more information on these securities.

JEANNINE’S TIP O’ THE MONTH RAYMOND JAMES CANADA FOUNDATION ANNUAL GIVING CAMPAIGN

This year’s Raymond James Canada Foundation Annual Giving Campaign was a huge success, with over \$814,000 being raised through employee and associate contributions along with the company match. These funds will be going to 250 charities across Canada.

This newsletter has been brought to you by Steele Wealth Management

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