

# 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.*

## CRM2 THE ULTIMATE INVESTOR FRIENDLY POLICY OR A LOST OPPORTUNITY?

**We believe in transparency. We believe our clients should know what they pay for wealth management services**, so our team establishes an annual management fee percentage at the beginning of the relationship and lists management fees in dollar terms on every statement. If there are any addition fees, we disclose them at the time of recommendation. **We believe investors should know their total investment returns**, so our team prepares custom reports showing household returns net of fees for every review. We have been operating this way for 15 years because clients deserve transparency.

In January, new rules called **Client Relationship Model – Phase 2 (CRM2)** came into effect, requiring the wider investment industry to provide more in-depth cost and performance data to their clients.

While we applaud this movement *towards* transparency, the new reporting requirements fall short of the information you have been getting for years.

### What CRM2 Gets Sort of Right:

- All firms are now required to provide a 12 month summary of costs associated with the management of each account annually.
- All firms are now required to provide an investment performance report using a “money-weighted” rate of return.

These changes provide useful data on investment management fees and account returns. You will be receiving this CRM2-mandated report from Raymond James soon.

### What CRM2 Does Not Show You:

- The investment management cost summaries are in dollar terms and not percentage terms. It will continue to be difficult for investors to compare their investment management fee with colleagues, other investment firms and industry averages.
- Not all costs are included so investors still cannot compare an advisor who performs both the wealth management and investment functions, like Steele Wealth Management, to an advisor who outsources the investment function by investing primarily in mutual funds and ETFs which come with additional embedded costs.
- The “money-weighted” returns are mandated to be reported on an account-by-account basis. Investors have no way of knowing their total household return.

### In Conclusion:

We remain committed to transparency and encourage you to call with any questions regarding this new reporting requirement.

### Current Rates & Data

#### Govt of Canada

90 day	0.44%
1 year	0.62%
2 year	0.79%
5 year	1.12%
10 year	1.69%
30 year	2.29%

#### U.S. Treasury

90 day	0.52%
1 year	0.80%
2 year	1.19%
5 year	1.90%
10 year	2.40%
30 year	2.99%

#### Canada Prime Rate

2.70%

#### U.S. Prime Rate

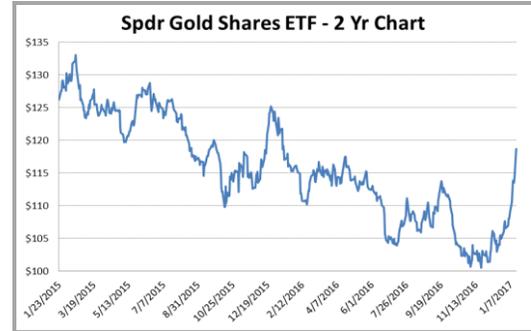
3.75%

#### Exchange Rates

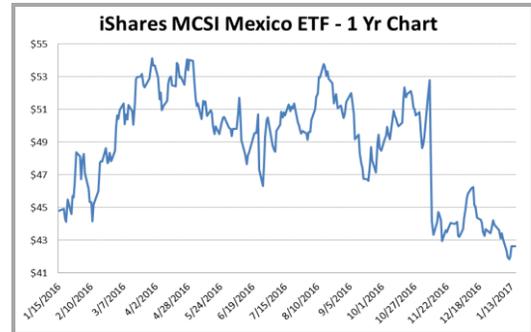
CAD/USD	0.760
USD/EUR	1.060
JPY/USD	114.0

## ECONOMIC TIDBITS TRUMP TRADE BACKPEDALS & TRUMP INTIMIDATE U.S. MANUFACTURERS TO STAY

- The Trump trade partly reversed itself over the past month with gold, bonds and the REIT, consumer staples, utilities and telecom sectors paring their losses and with base metals and the industrials, financials and energy sectors paring their gains. Investors are growing concerned that Trump will face opposition from his own party on his deficit spending and infrastructure proposals.



- While investors remain skeptical that Trump will damage economic growth by tearing up trade agreements, Trump has been busy “bullying” manufacturers into keeping their U.S. production. Ford, Fiat Chrysler and Carrier have changed foreign investment plans while GM and Toyota have been targeted with threats of a “big border tax”. The Mexican peso and stock market have reacted poorly.



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

Smaller Than Peers + Strong Acquisition History = Valuation Premium? Evidently No, but Why Not?

- **Boralex (BLX)** and **Open Text Corp (OTC)** are two ideas related to this theme.
- **Boralex** is a Canadian renewable power producer with operations in Canada, the U.S. and France. Boralex trades at 10x 2018 EV/EBITDA (based on RJ estimates), roughly in line with larger utility peers. We believe Boralex should trade at a premium to its larger peers as future acquisitions will have greater impact on its earnings profile. Boralex’s rapid historical growth profile and lack of coal/carbon exposure also warrant a premium for Boralex shares. While Boralex’s 2.9% dividend yield is at the low end of the utilities sector, we believe that Boralex could become one of the top dividend growth companies on the TSX over the next few years as it scales up and eventually runs out of uses for its cash flow.
- **Open Text** is a leading developer of enterprise information management software. Open Text trades at 12x forward EV/EBITDA (based on RJ estimates), a discount to its peers at ~13x. Open Text has stated that it is looking to deploy US\$3 billion for acquisitions over the next few years and Open Text’s track record as an acquirer is best in class. After a period in which the company made only a few minor acquisitions, we can see an acquisition renaissance on the horizon following three \$100M+ acquisitions in the past six months, two of which were operations purchased from larger competitors.
- Feel free to ask a member of our team for more information on these securities.

## JEANNINE’S TIP O’ THE MONTH CRM2 Reports

Paper CRM2 reports should arrive in your mailbox in the week starting January 23.

For those clients who have signed up for our paperless statement service, these reports should be delivered in a more timely fashion.

Please look out for these new reports and be sure to contact us if you have any questions.

**This newsletter has been brought to you by Steele Wealth Management**

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