

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.

CORPORATE PROFITS VS. WAGES THE MINIMUM WAGE BATTLE HEATS UP

North American corporate profits are at record highs. This should come as no surprise with interest rates near record lows and 50 years of stagnation for average real wages meaning all income growth has flowed to capital over that period. Further, income inequality, particularly in the U.S., is approaching near all-time highs as high income earners receive much more of a smaller pie while low income earners receive less.

Increases to the Minimum Legal Wage and Minimum Company Level Wages

The Occupy movement, which started with the Occupy Wall Street protests in 2011, and the more recent and more successful "Fight for \$15" movement have changed society's perception of fair compensation and pushed municipalities, provinces and states to take action. For example, Seattle, San Francisco and LA have committed to boosting the minimum wage to \$15 from \$9-\$10 now. Alberta's new NDP government has stated it will raise the minimum wage to \$15 from \$10.20 now. Chicago has committed to a \$13 minimum wage from \$8.25 now. TJ Maxx, Wal-Mart and McDonalds recently boosted their company-wide minimum wage above legislated minimums. Health care insurer Aetna raised its minimum wage to \$16.

The Effect of a Higher Minimum Wage and Higher Wages in General

Adding credibility to the movements is the highly regarded book by Thomas Piketty, "Capital in the 21st Century". The book argues that the minimum wage was a key tool for reducing income inequality from 1940-1975 and raising it could lower inequality and possibly boost economic growth. Higher wages reduce income flowing to capital meaning lower corporate profits and likely lower pay at the high end. That said, it could also mark the end of an age of steadily rising corporate profits and stock prices.

RIDING THE CURVE A CATALOGUE OF OUR MONTHLY FIXED INCOME FAVOURITES

iShares iBoxx U.S. Investment Grade Bond Index ETF CAD-Hedged (XIG)

- Seeks to replicate the USD-denominated investment grade corporate bond market
- Provides exposure to low-risk U.S. corporate bonds without the currency risk
- At \$23.09, it has a yield-to-maturity of 3.48% and an effective duration of 8.2 years

iShares U.S. High Yield Bond Index ETF CAD-Hedged (XHY)

- Seeks to replicate the USD-denominated high yield corporate bond market
- Provides exposure to high yield U.S. corporate bonds without the currency risk
- At \$21.06, it has a yield-to-maturity of 5.50% and an effective duration of 4.1 years

Current Rates & Data

Govt of Canada

90 day	0.61%
1 year	0.68%
2 year	0.61%
5 year	0.94%
10 year	1.73%
30 year	2.33%

U.S. Treasury

90 day	0.00%
1 year	0.24%
2 year	0.69%
5 year	1.67%
10 year	2.32%
30 year	2.33%

Canada Prime Rate

2.85%

U.S. Prime Rate

3.25%

Exchange Rates

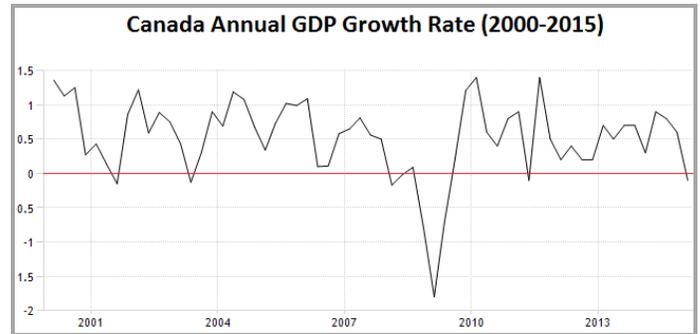
CAD/USD	0.813
USD/EUR	1.125
JPY/USD	123.4

ECONOMIC TIDBITS *GREECE TOES THE LINE & CANADA'S ECONOMY SHRINKS A LITTLE*

- By choosing to bundle its June IMF payments, Greece has become only the **second nation to exercise this option**, the other being Zambia which used it in 1982 and subsequently defaulted on its debt in 1983. It is evident that Greek leaders have upped the ante in debt negotiations. This action provides more time for deliberation and sets an official deadline for negotiations of June 30th.



- Canadian real Q1 GDP number came in below estimates, declining for the first time since 2009. The oil price collapse and resultant Canadian dollar volatility led to a decline in business investment, construction and exports though household spending was flat despite cost savings from lower oil prices. The **odds of another interest rate cut in Canada rose markedly** after the data was released.



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

Stocks in Transition with Plenty of Future Growth Potential Offer Attractive Risk-Return Profiles

- Keurig Green Mountain (GMCR)** and **Nintendo (NTDOY)** are two investment ideas related to this theme.
- Keurig** shares are down over 45% since late 2014 as the introductions of the Keurig 2.0 and Keurig Kold machines have been met with consumer pushback and lack of enthusiasm. We believe Keurig will address all of the Keurig 2.0 issues (e.g. no third-party K-Cups, no My K-Cup, generally non-recyclable materials) in due time and that Keurig is merely pushing out revenue recognition as there are no viable competitors to draw Keurig customers away. Despite the high price point, we believe Keurig Kold will be a success as the ability to have fountain pop, served cold, without the need for CO2 canisters and in brands that consumers want (e.g. Coke, Diet Coke, Canada Dry) will eventually beat out competitors.
- Nintendo** is a shadow of its former self as its dominance in consoles has waned since the early 2000s. Nintendo's most recent console, Wii U, has been a bust but its DS and 3DS handhelds remain market leaders. Nintendo recently announced that it will be developing games for mobile phones. The company is expected to release 5 major titles by 2017. With its recognizable characters and well-developed storylines, Nintendo should be able to command a higher than average price point for its games. This move should allow Nintendo to reach a greater number of users, creating new opportunities in media and toys. Nintendo has ~\$8.5 billion in net cash allowing for an easy transition to mobile games.
- Feel free to ask a member of our team for more information on these securities.

JEANNINE'S TIP O' THE MONTH *SUMMER SAFETY*

Summer begins with the solstice on June 21st, followed by family holidays, road trips and fun in the sun. Prepare for safe summer days with these simple reminders. <http://www.getprepared.gc.ca/cnt/rsrscs/sfttps/tp201407-en.aspx>

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