

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.

ALBERTA NDP TARGETS CANADA'S OIL PATCH UNCERTAINTY ABOUNDS

In the May 5th election, Alberta's NDP secured a majority government, deposing the entrenched Alberta PC Party which governed the province for 44 consecutive years. The electorate's mass ideological shift from right wing to left was borne out of protest against the incumbent PC Party's austerity budget, which aimed to raise revenues from the broad population, rather than corporations, to supplement dwindling oil and gas royalty revenues. In contrast, the NDP touted a highly populist agenda promising to extract revenues from big business and the province's cash cows in particular, its natural resources and the companies that profit from them.

Key Alberta NDP Platform Points:

- Raise the corporate tax rate to 12% from 10% currently
- Review the current oil and gas royalty regime and potentially raise royalty rates
- Boost the minimum wage to \$15 an hour by 2018
- Raise tax rates on high income earners and lower the effective tax rate for low income earners by cancelling the health levy proposed by the Alberta PC Party
- Shut down all coal power plants, likely resulting in higher electricity prices
- Stop fighting for new pipelines, potentially limiting the oil patch's ability to grow

All of these policies can be seen as being gravely anti-business and will very likely reduce future investment in the province. Oil and gas companies will be affected in an outsized way but all businesses will feel the pain. Small businesses may find it exceptionally difficult to deal with a higher minimum wage and electricity costs.

RIDING THE CURVE A CATALOGUE OF OUR MONTHLY FIXED INCOME FAVOURITES

Brookfield Office Preferred K (BPO.PR.K)

- Brookfield Office is a North American commercial real estate company
- The shares are retractable at \$25 on December 31st, 2016
- At \$25.31, the issue has a yield-to-retraction of 4.75% and is rated Pfd-3

Dundee Corp Preferred C (DC.PR.C)

- Dundee Corp is a globally diversified asset management company
- The shares are retractable at \$25 on June 30th, 2016
- At \$17.60, the issue has a yield-to-retraction of 6.69% and is rated Pfd-3

Current Rates & Data

Govt of Canada

| | |
|---------|-------|
| 90 day | 0.64% |
| 1 year | 0.71% |
| 2 year | 0.67% |
| 5 year | 1.04% |
| 10 year | 1.75% |
| 30 year | 2.35% |

U.S. Treasury

| | |
|---------|-------|
| 90 day | 0.02% |
| 1 year | 0.21% |
| 2 year | 0.56% |
| 5 year | 1.51% |
| 10 year | 2.20% |
| 30 year | 2.98% |

Canada Prime Rate

2.85%

U.S. Prime Rate

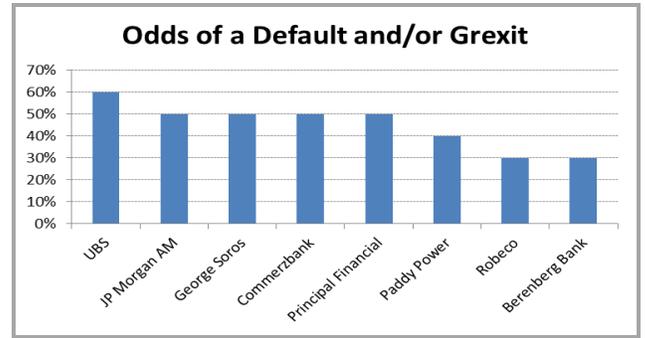
3.25%

Exchange Rates

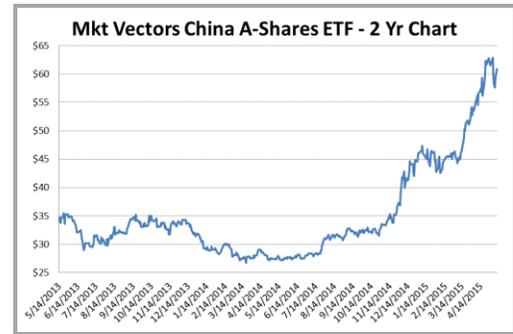
| | |
|---------|-------|
| CAD/USD | 0.837 |
| USD/EUR | 1.131 |
| JPY/USD | 119.3 |

ECONOMIC TIDBITS *GREECE AND EU FAR APART & CHINA BUBBLE GROWING DESPITE WEAK ECONOMY*

- **Greek and EU policymakers remain worlds apart** in debt negotiations and a new debt deal appears increasingly unlikely. The deadline for a deal is unclear as there is little consensus about when the last dollar available to the Greek government will have been used. The odds of Greece being coerced out of the EU seem to be rising with every passing day. The markets have so far paid little mind.



- The Chinese market looks very similar to itself circa 2007, when a bull run and subsequent crash exemplified the global financial excess that existed at the time. The Shanghai Composite is up 100% since July **driven by expanding margin debt** only comparable to that of the U.S. market in 1929. This is occurring while China grows at the slowest pace in 25 years and Chinese real estate prices decline.



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

Retailers Looking to Bounce Back After a Frigid Winter Resulted in the Worst Retail Sales Data Since 2008

- **Wal-Mart Stores (WMT)** and **Canadian Tire Corp (CTC.A)** are two investment ideas related to this theme.
- **Wal-Mart** is the world’s largest retailer, private employer and company by revenue. Wal-Mart shares have been under pressure lately as a result of slow global economic growth affecting sales in Q1 as well as the announcement that it will raise wages for U.S. workers. Wal-Mart currently trades at 15.5x trailing earnings, a discount to the broad U.S. equity market at 18x. The dip in sales is likely weather related and the wage increase is expected to have a minor long-term effect on earnings. As Wal-Mart’s key demographic (low-to-middle income consumers) will see the greatest boost to discretionary income as a result of low oil prices and rising retailer pay, Wal-Mart should experience a sales recovery later in 2015.
- **Canadian Tire** is a retailer in Canada focusing on automotive goods and services, sporting goods and housewares. CTC.A trades at 17x trailing earnings, a discount to the Canadian equity market at 20x trailing earnings and a discount to its larger U.S. peers at ~25x. Its loyal customer base and the recent trend of above average same store sales warrant that CTC.A trades at a similar valuation to that of its U.S. peers. Target’s exit from Canada has left a gaping hole in the housewares and general merchandise offering of Canadian retailers and CTC.A has the best chance of capitalizing on this opportunity.
- Feel free to ask a member of our team for more information on these securities.

JEANNINE’S TIP O’ THE MONTH **TFSA DOLLAR LIMITED INCREASED FOR 2015**

Subject to parliamentary approval and royal assent, annual TFSA contribution limit has increased from \$5,500 to \$10,000. CRA is administering this change immediately and you are now allowed to contribute up to the proposed maximum. If you have not already taken advantage of this increase in the contribution limit, call us today to make a contribution.

This newsletter has been brought to you by Steele Wealth Management

Brian Steele, CA, CPA, CFA | Jeannine Campbell | Laura Prust, CPCA
Kelly Edmonds | Matthew Bell, CFA

Phone: (519) 883-6030 Toll-Free: 1 (877) 642-6408

Email: steelewealthmanagement@raymondjames.ca

Address: 1001-20 Erb Street West | Waterloo, Ontario | N2L 1T2

Website: www.steelewealthmanagement.com

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