

Taking Stock with Steele

Your Monthly Newsletter

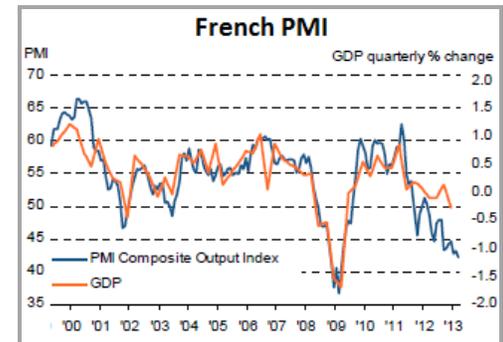
The purpose of this newsletter is to share insights and expertise. Our goal is to ensure that our clients are well-informed of changes affecting local business decisions and our investment recommendations.

We believe Knowledge Pays and we want our knowledge to help pay for you.

ECONOMIC TIDBITS AN INVENTORY OF NOTABLE DATA AND INFO

- Since our last newsletter, equity markets were mixed, again. Despite a series of U.S. data missing expectations, U.S. markets continued to march higher. Emerging markets and commodity sensitive markets, like the Canadian and Australian stock indices, experienced losses as emerging market demand and commodity prices slumped.
- U.S. and Japanese markets continue to stand on their own, driven by monetary stimulus. Though U.S. markets did see a minor pullback following a tsunami of dreadful data they quickly bounced off key technical support to make new highs. Very few times in history have all of the key U.S. data points (both ISM Indices, non-farm payrolls and jobless claims) missed expectations by a wide margin and not reflect a major inflection point in economic growth and in turn an inflection point for equity markets, at least temporarily.
- European economic activity declined in March, missing expectations of moderate growth. The French economy is contracting at a rapid pace with recent economic data consistent with annual GDP declines of 4-5%. The divergence between French and German economic activity puts the sustainability of the European Union in doubt as it proves that Germany is, in effect, shouldering all bailouts and may even have to bailout France. See Fig. 1 for a chart of the French PMI.

Fig. 1



Data Source: Markit

Fig. 2



Data Source: Market-Q

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

'Sell In May' & Poor Economic Data Hint at Future Weakness

- Markets have yet to price-in the possibility of a U.S. recession despite the recent negative surprises in U.S. economic data
- The upcoming seasonally weak period for equities and worsening economic data inspire us to reiterate our defensive equity position
- **BCE Inc. (BCE)** and **First Capital Realty (FCR)** are two investment ideas related to this theme:
 - BCE is Canada's largest telecom company, providing media and communications services nationwide. See Fig. 2 for 1-year chart.
 - First Capital operates supermarket/drugstore anchored shopping centers in Canada. See Fig. 3 for 1-year chart.

Fig. 3



Data Source: Market-Q

RIDING THE CURVE A CATALOGUE OF OUR MONTHLY FIXED INCOME FAVOURITES

Crombie REIT Debenture C Maturing June 30th, 2017 (CRR.DB.C)

- Crombie owns and operates a diversified set of real estate properties in Canada
- This is a 4.2 year debenture with a conversion price of \$15.30 (current price: \$15.12)
- This debenture yields 3.93% until maturity at a current trading price of \$107

Aimia (formally Group Aeroplan) Preferred A (AIM.PR.A)

- Aimia operates a loyalty management company in Canada and internationally
- The shares reset at 3.75% + the 5-year GofC bond on March 31st, 2015
- At \$26.03, the issue has a yield-to-retraction (soft) of 4.11% and is rated Pfd-3

TAX PLANNING 2013 FEDERAL BUDGET PROPOSALS AND HOW THEY MAY AFFECT YOU

The proposals included in the 2013 Federal Budget are minor and affect a small group of Canadian investors. A summary of the changes are listed below:

An Increase in the Dividend Tax Credit for Non-Eligible Dividends

The budget proposes to increase the effective tax rate on non-eligible dividends (i.e. dividends paid out of corporate earnings). If the budget passes, the top federal marginal tax rate will increase to 21.22% (from 19.58%) for the years 2014+.

Elimination of the Safety Deposit Box Fee Deduction

As safety deposit boxes are rarely used for holding investment certificates and are mostly used for storing non-income producing valuables, the budget proposes that safety deposit box fees are no longer tax deductible.

Phase-Out of the Labour-Sponsored Venture Capital Corporations (LSVCCs) Tax Credit

The current 15% federal tax credit for an investment of up to \$5,000 in LSVCC shares will be phased out, allowing for a 15% credit in years 2013/2014, a 10% credit in 2015 and a 5% credit in 2016. The credit will be eliminated thereafter.

Extension of the Mineral Exploration Tax Credit for Flow-Through Investors Program

The budget proposes to extend eligibility for the Mineral Exploration Tax Credit for one year to flow-through share agreements entered into on or before March 31st, 2014.

First-Time Donor's Super Credit (FDSC)

The budget proposes to offer a super donation credit to individuals who have not claimed a charitable tax credit in any taxation year after 2007. The FDSC will be available on donations made on or after March 21st, 2013 and may be claimed once in any taxation year from 2013-2018. The FDSC provides a 25% tax credit on your first \$1,000 in cash/money donations (does not apply to donated securities in kind).

Increase in the Lifetime Capital Gains Exemption (LCGE)

The budget proposes to increase the LCGE to \$800,000 in 2014 and increase the LCGE by inflation going forward. The LCGE concerns small business corporation shares.

JEANNINE'S TIP O' THE MONTH ENHANCING YOUR SWM EXPERIENCE

The Deadline for 2012 Personal Income Tax Filing is April 30th. A reminder that payment to the CRA of your balance owing is due on this date and any payment received after this date is subject to interest.

Current Rates & Data

Govt of Canada

90 day	0.84%
1 year	1.02%
2 year	0.94%
5 year	1.19%
10 year	1.61%
30 year	2.31%

U.S. Treasury

90 day	0.06%
1 year	0.12%
2 year	0.22%
5 year	0.69%
10 year	1.72%
30 year	2.90%

Canada Prime Rate

3.00%

U.S. Prime Rate

3.25%

Canada CPI Y-o-Y (Feb)

1.20%

U.S. CPI Y-o-Y (Feb)

2.00%

Exchange Rates

CAD/USD	0.979
USD/EUR	1.308
JPY/USD	98.06

This newsletter has been brought to you by Steele Wealth Management

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