ISSUE 27 | JULY 2013

Taking Stock with Steele

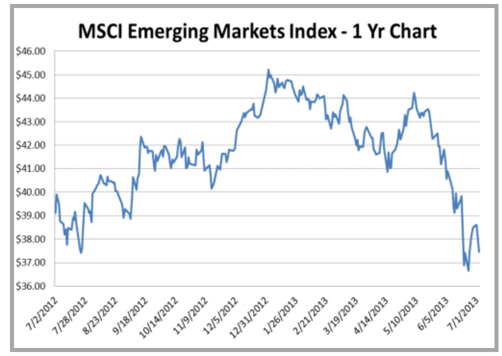
Your Monthly Newsletter

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*

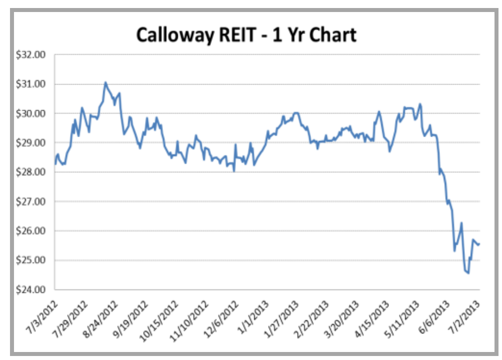
- Since our last newsletter, most assets all slumped in tandem. U.S. Fed Chairman Bernanke spooked investors by suggesting that QE3/4 bond purchases will be tapered later this year and end by mid-2014 should the economy grow in line with Fed projections. The Bank of China added to investor worries as it allowed the SHIBOR (Shanghai Interbank Offering Rate) to reach crisis levels in order to punish the banks that are using a low SHIBOR rate to speculate in asset markets.
- Emerging market performance has been terrible so far this year, with the MSCI Emerging Markets Index down over 12% year-to-date, as capital flight from these countries intensifies. A combination of slower growth and uncomfortably high asset prices and/or inflation makes investing in emerging markets difficult. For example, despite persistently poor economic data in China, policymakers refuse to stimulate the economy as already frothy real estate prices continue to climb. <u>*See Fig. 1 for a 1-Yr chart of MSCI Emerging Markets ETF.*</u>
- Eurozone economic activity hit a 15-month high in June. Though the prospect of new crises rose, as the Greek and Portuguese coalition governments face possible dissolution, Spain's economic improvement may be enough to quell lesser worries relating to Greece, Portugal, Cyprus, Slovenia, and so on.

Fig. 1



Data Source: Market-Q

Fig. 2



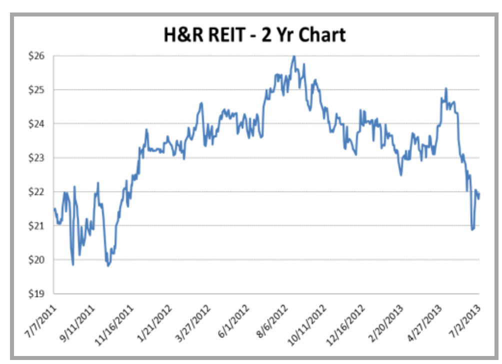
Data Source: Market-Q

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

Interest Rate Sensitive Stocks Appear Attractive After Selloff

- Since mid-May, interest rates have spiked and interest rate sensitive stocks have sold off, to multi-year lows in some cases
- As we believe the rise in interest rates will be limited, particularly in Canada where inflation is low, we see this as a buying opportunity
- **Calloway REIT (CWT.UN)** and **H&R REIT (HR.UN)** are two investment ideas related to this theme:
  - Calloway owns retail properties in Canada with 84% of its leasable area in Walmart Smart Centres. <u>*See Fig. 2 for 1-year chart.*</u>
  - H&R owns a diversified portfolio of real estate properties and is Canada's 3rd largest REIT. <u>*See Fig. 3 for 2-year chart.*</u>

Fig. 3



Data Source: Market-Q

RIDING THE CURVE *A CATALOGUE OF OUR MONTHLY FIXED INCOME FAVOURITES*

BMO Mid Corporate Bond Index ETF (ZCM)

- ZCM is designed to replicate the DEX Mid Term Corporate Bond Index
- ZCM holds corporate bonds issued by Canadian Banks/Insurers and Telecom Cos
- At $15.55, the shares have a yield-to-maturity of 3.59% and a modest MER of 0.3%

Dundee Corp Preferred C (DC.PR.C) Retractable on June 30th, 2016

- Dundee Corp is a diversified asset management company with a significant portion of its assets invested in Bank of Nova Scotia common and preferred shares
- At $17.40, the issue has a yield-to-retraction of 5.92%; the shares are rated Pfd-3

PORTFOLIO PLANNING DETERMINING RISK TOLERANCE IS EASIER SAID THAN DONE

As part of our client discovery process, we attempt to define your risk tolerance based on a series of questions that delineate the maximum portfolio drawdown and portfolio volatility that you are comfortable with. Over time, as we get to know you better, your individual risk tolerance may evolve. That said, sometimes our mutually understood definition of risk tolerance is different from reality. Sometimes a market downturn is needed to bring true risk tolerance to light.

Look to 2008 as an example

Many individuals, pension fund managers and portfolio managers didn't understand their risk tolerance prior to the market crash of 2008. Ever since, many have been shell-shocked, holding onto their higher risk securities hoping for recovery and in many cases have received that recovery and then some. In determining your risk tolerance, it is important to focus on the emotional feelings experienced in the years 2008-2009, when markets collapsed, in order to discern your true risk tolerance. Put aside the optimism borne out of the positive returns experienced in years 2010-2013.

Why are we discussing this now?

June 2013 was a poor month for equity markets and due to concurrently rising interest rates, it was a very poor month for most securities (sovereign & corporate bonds, preferred shares, commodities, most currencies). This resulted in poor portfolio performance for even the most conservative investor. Though we do not expect interest rates to continue spiking at their recent pace, we believe the market turmoil experienced in June is a great warning shot for those who underestimated their risk tolerance. We understand it is difficult to remain invested when all asset classes drop at the same time. As a team we work hard to monitor portfolio risk and ensure that the downside is muted. If you have questions or concerns with respect to risk management in the current environment, please let us know and we will be in touch.

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

Saturday July 20th is Canada's Parks Day – A national event that showcases our parks and historic sites across Canada. This is an opportunity for Canadians to participate in hundreds of unique and fun events taking place in parks coast to coast. Take your family to learn more about the nature and history of Canada by participating in these festivities. Check out www.pc.gc.ca or www.ontarioparks.com for more details.

Current Rates & Data

Govt of Canada

90 day	1.00%
1 year	1.09%
2 year	1.14%
5 year	1.78%
10 year	2.47%
30 year	2.92%

U.S. Treasury

90 day	0.04%
1 year	0.12%
2 year	0.37%
5 year	1.49%
10 year	2.63%
30 year	3.65%

Canada Prime Rate

3.00%

U.S. Prime Rate

3.25%

Canada CPI Y-o-Y (May)

0.70%

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

1.40%

Exchange Rates

CAD/USD	0.950
USD/EUR	1.282
JPY/USD	100.3

This newsletter has been brought to you by Steele Wealth Management

Brian Steele, CA, CPA, CFA | Jeannine Campbell | Laura Prust, CPCA
Kelly Townsend | Matthew Bell, CFA | Keith Gummow, CFP, CLU, Ch.F.C.

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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All rates mentioned within this newsletter are as of July 10th, 2013, unless otherwise stated.