

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

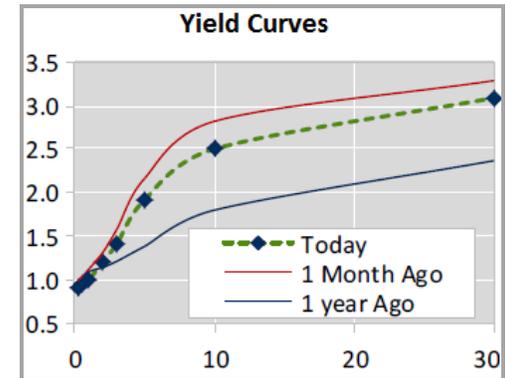
- Since our last newsletter, equity, bond and commodity markets have been range bound. Mildly improving economic data combined with the U.S. Fed's "No Taper" announcement were offset by a partial U.S. government shutdown. Oil and gold prices fell as a Russia brokered agreement to collect and eliminate Syria's chemical weapons cooled tensions in the Middle East.
- Investors were shocked but thrilled to hear that the Fed will not taper its bond purchases due to higher interest rates, poor job creation and political gridlock. As the vast majority of investors expected the Fed to taper, essentially all asset classes rallied strongly on the news. Since 2011, investors have repeatedly pushed markets higher on bad news due to Fed intervention and at Steele Wealth Management, we grow increasingly concerned that markets may find it hard to climb on good news, when it finally arrives.
- The U.S. government shutdown has kept a lid on the markets since late September. Though volatility remains subdued, the one-in-a-million chance that some very smart people opt for financial calamity led to market selloffs every time Obama or Boehner criticized each other's behaviour.

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

Interest Rate Spike May Be Played Out, At Least Temporarily

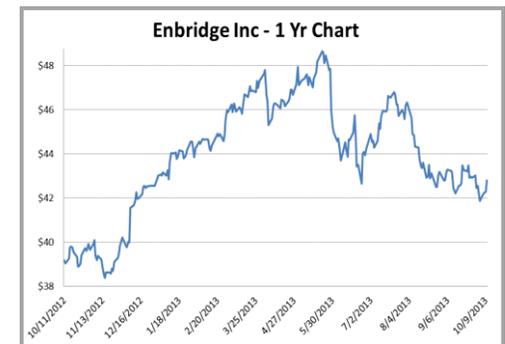
- As higher interest rates reduced housing market and broad economic momentum and forced the Fed to continue purchasing bonds, we see little reason for another spike in interest rates
- We expect interest rate sensitive securities to firm up as a result See Fig. 1 for chart of Yield Curves Today, 1 Month Ago & 1 Year Ago
- **Enbridge (ENB)** and **Emera (EMA)** are two investment ideas related to this theme:
 - Enbridge owns and operates an energy transportation and distribution system in North America. See Fig. 2 for 1-year chart.
 - Emera engages in the generation, transportation and distribution of energy on the Eastern seaboard. See Fig. 3 for 2-year chart.

Fig. 1



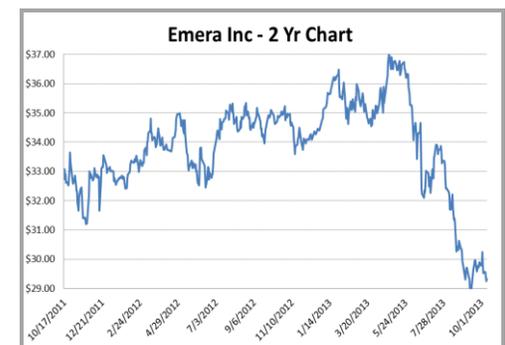
Data Source: Bloomberg.com

Fig. 2



Data Source: Market-Q

Fig. 3



Data Source: Market-Q

RIDING THE CURVE A CATALOGUE OF OUR MONTHLY FIXED INCOME FAVOURITES

Fortis Inc Preferred E (FTS.PR.E) Retractable on September 1st, 2016

- Fortis generates, transports and distributes electricity in North America
- At \$25.90, the issue has a yield-to-retraction of 3.79%; the shares are rated Pfd-2L

Manulife Finl Preferred A (MFC.PR.A) Retractable on December 19th, 2015

- Manulife provides financial protection and wealth management products/services
- At \$25.46, the issue has a yield-to-retraction of 3.36%; the shares are rated Pfd-2H

RETIREMENT PLANNING THE RISKS OF DEFINED BENEFIT PENSION PLANS

The vast majority of Individuals consider their various defined benefit pensions (CPP and employer pensions) to be their most secure and reliable source of income in retirement. In most cases, there is little risk of losing any income your pension administrator has promised, but in some cases, like the notorious collapses of Nortel, Enron and Detroit, pensions and pension promises are not 100% reliable.

Companies and governments with little financial flexibility and high levels of debt have difficulty fulfilling their annual pension contributions making it difficult to meet the obligatory payouts. **The business cycle and creative destruction make company sponsored pensions the most susceptible** but as we have seen in the past year, pensions of ailing municipalities are also at risk. It is important to know the risks associated with your pension plan and to determine whether additional savings are needed to mitigate the risk of a lower pension payout at retirement.

A pension plan’s funding ratio is the best indicator of pension plan health. Any number under 100% indicates that the plan is underfunded and requires additional employer contributions. As of September 30th, 2013, despite solid improvement in pension plan solvency since 2008, **85% of Canadian pension plans have a funding deficit and the average funding ratio stands at 88%**. With 85% of pension plans experiencing a deficit, the risk of underfunded pension plans reducing benefits for retirees remains high. Earlier this year, the Healthcare of Ontario Pension Plan (HOOPP) attempted to reduce benefits for retirees as a way to help return the plan to full funded status. We expect the pressure to reduce benefits to spike during periods of equity market weakness.

As with all of life’s risks, it is important to establish a safety net to protect against unexpected events. If you are worried about your pension plan’s solvency, we at Steele Wealth Management can help assess the risk and create a plan to save accordingly.

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

Creating a Legacy of Giving. Donor advised funds are charitable giving funds established within *The Raymond James Canada Foundation (RJCF)* by an individual, couple or family. They provide a lower cost alternative to setting up and managing a private family foundation. When to consider the RJCF:

- A family wants to establish a charitable legacy with familial recognition
- A person/couple wants to make a tax-effective donation without having to designate charities
- An business owner is contemplating the sale of the company and wants to reduce a tax liability
- A family has a small private foundation and wants to reduce the administration burdens

Current Rates & Data

Govt of Canada

90 day	0.90%
1 year	1.00%
2 year	1.22%
5 year	1.93%
10 year	2.63%
30 year	3.18%

U.S. Treasury

90 day	0.07%
1 year	0.13%
2 year	0.35%
5 year	1.44%
10 year	2.71%
30 year	3.76%

Canada Prime Rate

3.00%

U.S. Prime Rate

3.25%

Canada CPI Y-o-Y (Aug)

1.10%

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

1.50%

Exchange Rates

CAD/USD	0.965
USD/EUR	1.350
JPY/USD	98.44

This newsletter has been brought to you by Steele Wealth Management

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All rates mentioned within this newsletter are as of October 15th, 2013, unless otherwise stated.

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