

Taking Stock with Steele

Your Monthly Newsletter

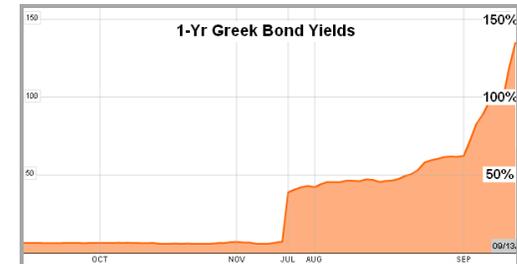
The purpose of this newsletter is to share insights and expertise. Our goal is to ensure that our clients are well-informed of changes affecting local business decisions and our investment recommendations.

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

ECONOMIC TIDBITS AN INVENTORY OF NOTABLE DATA AND INFO

- August ISM/PMI manufacturing data signals continued expansion in the U.S., China and Germany while Eurozone manufacturing data points to economic contraction. Service industry data remains strong with most indicators deep in expansionary territory. These two indicators predict a shallow recession or mild expansion for the world economy at this time. See Fig. 1 for a chart of 1-Yr Greek Bond Yields
- Equity markets experienced yet another month of extreme volatility and uncertainty due to ongoing Eurozone debt issues. The probability of Greek default, as signaled by the credit default swap market, shot to over 95% in the next two years, assuming a 40% recovery rate. The Big 3 French banks were brought into the spotlight this month as they have the greatest non-Greek exposure to Greek debt which stands at €8.6 billion (excluding interbank exposure) as of September 8th, 2011.

Fig. 1



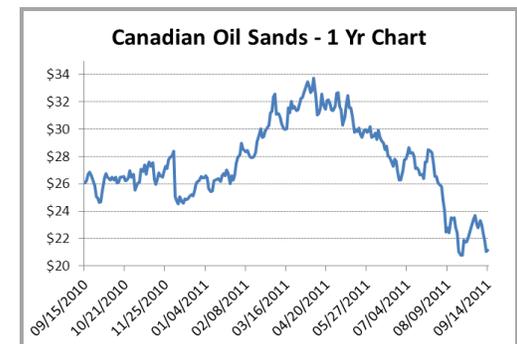
Data Source: Bloomberg.com

Fig. 2



Data Source: Market-Q

Fig. 3



Data Source: Market-Q

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

Late Cycle and Cyclical Stocks

- It is typical for cyclical stocks to experience several periods of notable weakness prior to cycle end and today is no exception
- As long as we can avoid a liquidity/credit crisis in Europe, it is likely that the effect of the proposed fiscal and monetary stimulus in the U.S. and the ongoing strength in the Chinese, Indian and other Asian economies will allow for continued economic expansion
- **Finning International (FTT)** and **Canadian Oil Sands (COS)** are two investment ideas related to this theme that are worth expanding on:
 - Finning sells, services and rents Caterpillar brand heavy equipment in the Americas and the UK. Performance data has been improving lately but the stock is down ~25% due to the decline in overall equity markets and investor confidence. See Fig. 2 for 5-year chart.
 - Canadian Oil Sands holds a 36.74% interest in the Syncrude Project, Canada's largest oil project. The stock provides high leverage to the price of oil, which should recover in economic expansion. See Fig. 3 for 1-year chart.

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

Canaccord Financial Preferred A (CF.PR.A)

- Canaccord is a provider of investment services in Canada, the U.S. and the UK
- The shares reset at 3.21% + the 5-year GofC bond on June 23rd, 2016
- At \$25, the issue has a yield-to-retraction (soft) of 5.50% and is rated Pfd-3 (low)

First Capital Realty Debenture F Maturing on January 31st, 2019

- First Capital operates supermarket/drugstore anchored shopping centers in Canada
- This is a 7.4 year debenture with a conversion price of \$23.77 (current price: \$16.60)
- This debenture yields 6.10% until maturity at a current trading price of \$95

Chemtrade Logistics Debenture Maturing on March 31st, 2017

- Chemtrade manufactures and markets industrial chemicals in North America
- This is a 5.5 year debenture with a conversion price of \$16 (current price: \$13)
- This debenture yields 6.02% until maturity at a current trading price of \$99.89

ALTERNATIVE INVESTING SERIES *REVIEWING THE TOP OPPORTUNITIES IN AI*

Financial theory promotes the use of low volatility assets like hedge funds and commodities in the portfolio diversification process as investing in these assets can reduce overall portfolio risk

Sentry Select Market Neutral L.P. (Hedge Fund)

- This fund is a traditional long-short hedge fund with a low expense ratio
- The fund's standard deviation (volatility/risk) since inception is a mere 3.60%
- Though investing in hedge funds can reduce your overall portfolio risk, generating a risk-adjusted return is dependent on the investment skill of the fund manager

Claymore Broad Commodity ETF (CBR)

- This ETF is equally invested in crude oil, heating oil, gasoline, natural gas, copper, gold, silver, soybeans, wheat, corn, sugar and cotton
- Commodities generally have a low to negative correlation to equities
- Though investing directly in commodities can reduce your overall portfolio risk, it is important to remember that commodity price volatility is high and commodities tend to experience very long bull and bear market cycles

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

TFSA Rules Reminder! In order to avoid penalty fees, amounts withdrawn from your TFSA must be re-contributed in the following calendar year. Excess contributions are penalized at a rate of 1% per month by the Canada Revenue Agency. Reference your personal income tax notice of assessment or reassessment to confirm your annual TFSA contribution limit.

Current Rates & Data

Govt of Canada

90 day	0.78%
1 year	0.90%
2 year	0.95%
5 year	1.46%
10 year	2.11%
30 year	2.90%

U.S. Treasury

90 day	0.00%
1 year	0.09%
2 year	0.20%
5 year	0.88%
10 year	2.01%
30 year	3.36%

Canada Prime Rate

3.00%

U.S. Prime Rate

3.25%

Canada CPI Y-o-Y (July)

2.70%

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

3.60%

Exchange Rates

CAD/USD	1.006
USD/EUR	1.368
JPY/USD	76.70

This newsletter has been brought to you by Steele Wealth Management

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