

# 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

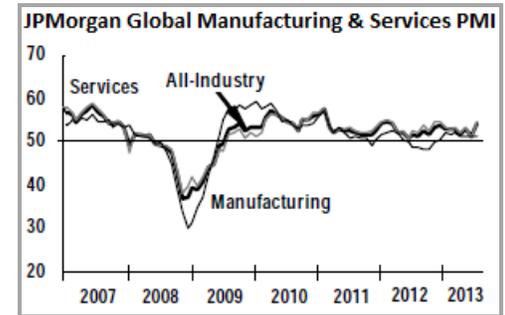
- Since our last newsletter, equities and commodities rallied while bonds slumped as economic data and corporate earnings came in better than expected (62.9% of U.S. companies have beat earnings expectations), investors became comfortable with idea of the Fed tapering the bond purchases related to QE3/4 and credit conditions improved in China.
- Global economic activity, as measured by the JPMorgan Global Manufacturing & Services PMI, hit a 16-month high in July with U.S. activity hitting a 7-month high and many troubled large economies (Spain, Italy, France, the UK) showing vast improvement. See Fig. 1 for chart of JPMorgan Global Manufacturing & Services PMI.
- The credit crunch in China has faded as the Bank of China provided sufficient liquidity to financial institutions pushing lending rates to normal levels. In late July, Chinese Premier Li Keqiang set the stage for more economic stimulus, saying “The bottom line for economic growth is 7%, and this bottom line must not be crossed”. Before this announcement, the perceived odds of additional stimulus had been low due to China’s ongoing policy war against rising property prices. Commodities and mining companies around the world rallied from depressed levels on the prospect of additional stimulus.

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

### Canadian Companies with Exposure to U.S. Growth

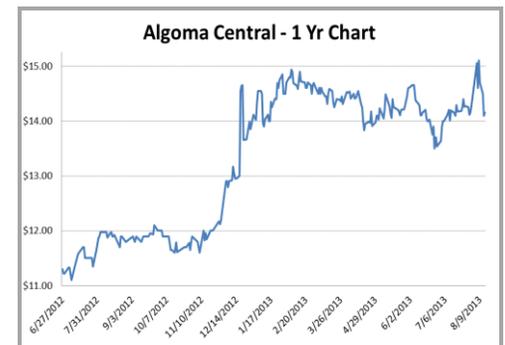
- As Canadian growth estimates are lower than U.S. growth estimates, investors should benefit from buying companies with U.S. exposure
- Important to find companies with a North American focus in the Industrials, Financials, Consumer Discretionary, Energy and IT sectors
- **Algoma Central (ALC)** and **Pason Systems (PSI)** are two investment ideas related to this theme:
  - Algoma owns the largest dry-bulk cargo fleet in the Great Lakes as well as real estate in Southern Ontario. See Fig. 2 for 1-year chart.
  - Pason provides instrumentation systems for rent or sale to drilling operators in the oil and gas industry. See Fig. 3 for 2-year chart.

Fig. 1



Data Source: Markit

Fig. 2



Data Source: Market-Q

Fig. 3



Data Source: Market-Q

RIDING THE CURVE A CATALOGUE OF OUR MONTHLY FIXED INCOME FAVOURITES

**Fairfax Financial Preferred K (FFH.PR.K)**

- Fairfax provides property, casualty, life and re-insurance globally.
- The shares reset at 3.51% + the 5-year GofC bond on March 31<sup>st</sup>, 2017
- At \$24.41, the issue has a yield-to-retraction (soft) of 5.86% and is rated Pfd-3

**Intact Financial Preferred C (IFC.PR.C)**

- Intact is Canada’s largest property and casualty insurer
- The shares reset at 2.66% + the 5-year GofC bond on September 30<sup>th</sup>, 2016
- At \$25.27, the issue has a yield-to-retraction (soft) of 3.86% and is rated Pfd-2L

RETIREMENT PLANNING BOOMERS UNDERESTIMATE THE IMPACT OF LONG-TERM CARE

A recent online survey by Nationwide Financial in the U.S. found that Boomers’ beliefs on the cost of long-term care (LTC) and the time spent in retirement do not match reality. This is concerning as the U.S. Dept. of Health & Human Services estimates that **70% of Americans currently aged 65+ will need LTC during their lifetime.**

Americans aged 50+ underestimate the annual costs of all types of LTC by more than **3x the actual cost.** Respondents correctly estimated the annual cost of the most affordable LTC option (nursing home care) at \$66,949 per year but failed to imagine the cost 25 years from now, underestimating it by 50% based on industry projections.

Working survey respondents and retired survey respondents estimated that they will spend 20.7 and 27.1 years in retirement, respectively, well below the 30+ years expected by life insurance industry experts.

It appears that Boomers’ perception of what LTC means is wrong as 75% of survey respondents said LTC makes them think of nursing home care, when in actuality, **only 25% of LTC is done in a nursing home** and roughly 75% of all LTC is performed by a professional within an individual’s home or in adult day care.

Not surprisingly, Boomers’ also fail to plan for LTC expenses in retirement. Over 80% of respondents have planned for everyday living expenses but only 43% have planned in any way for LTC expenses.

At Steele Wealth Management, we see some value in LTC insurance as a means of protecting against this probable event but we are not strong advocates due to LTC insurance’s high administrative costs and potentially variable premiums. Alternatively, we suggest living well within your means in retirement and **maintaining a sizable nest egg for unforeseen events** apart from the one used for retirement living expenses.

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

**New Rules for Ontario Probate Taxes.** New legislation governing Ontario’s probate process may impact your personal estate planning. Most importantly, estate executors can be subject to audit within 4 years starting from the filing date filing so be diligent in obtaining opinions as to value of property and other valuables forming an estate. For more info, please visit the Learning Center at [steelewealthmanagement.com](http://steelewealthmanagement.com).

**Current Rates & Data**

**Govt of Canada**

90 day	0.97%
1 year	1.10%
2 year	1.19%
5 year	1.93%
10 year	2.69%
30 year	3.16%

**U.S. Treasury**

90 day	0.05%
1 year	0.11%
2 year	0.34%
5 year	1.55%
10 year	2.83%
30 year	3.86%

**Canada Prime Rate**

3.00%

**U.S. Prime Rate**

3.25%

**Canada CPI Y-o-Y (June)**

1.20%

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

2.00%

**Exchange Rates**

CAD/USD	0.963
USD/EUR	1.342
JPY/USD	97.24

**This newsletter has been brought to you by Steele Wealth Management**

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All rates mentioned within this newsletter are as of August 19<sup>th</sup>, 2013, unless otherwise stated.

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