

Taking Stock with Steele

Your Monthly Newsletter

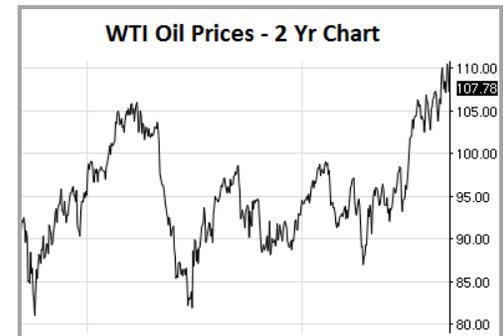
The purpose of this newsletter is to share insights and expertise. Our goal is to ensure that our clients are well-informed of changes affecting local business decisions and our investment recommendations.

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

ECONOMIC TIDBITS AN INVENTORY OF NOTABLE DATA AND INFO

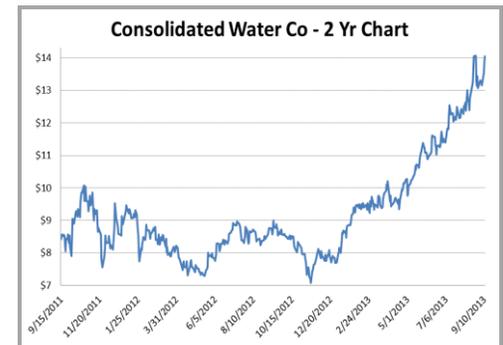
- Since our last newsletter, equities continued to firm up as economic data continued to come in ahead of expectations. Oil prices have been in focus recently as the U.S. gears up for a possible attack on Syria, increasing the risk of further oil supply disruption in the Middle East. Investors have accepted that the Fed will likely taper its bond purchases in September as a recent Reuters poll showed 71% of the participating economists expect the Fed to do so.
- Global economic activity, as measured by the JPMorgan Global Manufacturing & Services PMI, hit a 2.5-year high in August, led mostly by improvement in the U.S. and the Eurozone. Emerging market activity remains depressed with China experiencing slow growth and India and Indonesia seeing economic activity hit 48 and 15 month lows, respectively.
- Oil prices are primed to break out as improving economic activity combined with low Libyan oil output, unrest and lack of leadership in Egypt and the prospect of war in Syria pushed oil prices to a 2 year high (in U.S. dollars). Oil prices are already at all-time highs in many countries (Japan, India, Indonesia) and near an all-time high in the Eurozone. A further spike in oil prices could lower disposable income and economic growth. See Fig. 1 for a 2-Year chart of Oil Prices (WTI)

Fig. 1



Data Source: Nasdaq.com

Fig. 2



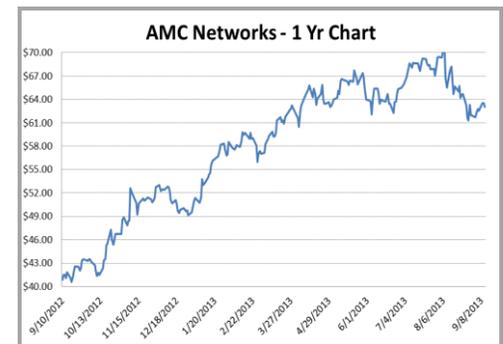
Data Source: Market-Q

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

U.S. Small Cap Momentum Has Slowed; Some Still Attractive

- Since late 2012, U.S. small caps have driven equity prices higher and will likely continue to do so if equity markets continue their ascent
- As Fed tapering and Syria have put the U.S. market rally on pause, now may be opportune to pick up some attractive small caps
- **Consolidated Water Co (CWCO)** and **AMC Networks (AMCX)** are two investment ideas related to this theme:
 - Consolidated Water develops and operates desalination plants and water distribution systems. See Fig. 2 for 2-year chart.
 - AMC owns cable channels and the hit TV shows The Walking Dead, Breaking Bad and Mad Men. See Fig. 3 for 1-year chart.

Fig. 3



Data Source: Market-Q

RIDING THE CURVE A CATALOGUE OF OUR MONTHLY FIXED INCOME FAVOURITES

Algoma Central Debenture Maturing March 31st, 2018 (ALC.DB)

- Algoma owns the largest dry-bulk cargo fleet in the Great Lakes as well as real estate
- This is a 4.5 year debenture with a conversion price of \$15.40 (current price: \$14.24)
- This debenture yields 4.64% until maturity at a current trading price of \$105.50

TransForce Debenture A Maturing September 30th, 2018 (TFL.DB.A)

- TransForce provides freight and transportations services in North America
- This is a 5 year debenture with a conversion price of \$22.10 (current price: \$20.90)
- This debenture yields 3.47% until maturity at a current trading price of \$110.00

FINANCIAL PLANNING RISING INTEREST RATES AND YOU

The effects of rising interest rates to the household are twofold:

- 1) Rising rates make servicing variable rate debt more expensive and fixed rate debt more expensive on renewal, lowering household disposable income
- 2) Rising rates cause your fixed income holdings to decline in value as these holdings adjust to the new, “fair” interest rate for that given security

There is little one can do to avoid the higher cost of servicing debt in a rising rate environment. Popular strategies include **paying off debt early or at a faster pace** and **locking in an interest rate** for a longer period of time. For those with large debt loads or unpredictable income, refinancing your mortgage to lock in an interest rate for five to ten years will provide some certainty of household expenses. Despite mortgage rates jumping by roughly 0.7% since early 2013, five to ten year mortgage rates are still below historical norms and locking in a rate now may be appropriate for those at risk.

As for your portfolio’s fixed income investments, **maintaining a portfolio of low duration securities** is the best defense against rising interest rates (low duration = short term to maturity and low interest rate risk). Though lower duration typically means lower yield, additional yield can be picked up by adding securities with higher perceived credit risk. Note: it is also important to recognize the interest rate risk tied to nontraditional fixed income securities like REITs and Utilities and plan accordingly.

We at Steele Wealth Management believe that rates will rise gradually, if at all, as most economies, and Canada’s in particular, are still experiencing slow economic growth, low inflation and high unemployment. That said, we are still cautious and since early 2012, we have endorsed securities designed to protect against rising rates while providing attractive yields such as **retractable and fixed reset preferred shares** and **convertible debentures** issued by industrial, non-bank financial, utility and consumer staples companies. This strategy paid off well as rates spiked in mid-2013.

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

Identity theft is a growing threat. Every day, users come across new programs designed to crack your passwords. It is imperative to create complex passwords that include an uppercase letter, a number and a symbol. It is also important to keep a list of accounts and passwords in a secure place for your executor as identity theft can occur after death.

Current Rates & Data

Govt of Canada

90 day	0.97%
1 year	1.08%
2 year	1.25%
5 year	2.09%
10 year	2.75%
30 year	3.25%

U.S. Treasury

90 day	0.01%
1 year	0.10%
2 year	0.38%
5 year	1.59%
10 year	2.83%
30 year	3.84%

Canada Prime Rate

3.00%

U.S. Prime Rate

3.25%

Canada CPI Y-o-Y (July)

1.30%

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

1.50%

Exchange Rates

CAD/USD	0.969
USD/EUR	1.335
JPY/USD	99.20

This newsletter has been brought to you by Steele Wealth Management

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All rates mentioned within this newsletter are as of September 17th, 2013, unless otherwise stated.

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