The Kelland Bulletin

Investment Climate

The 1st quarter of 2018 has come to an end. As always it was complex from an economic and investing perspective. The TSX is down 6.5% year to date. The Dow Jones is down 2.2%. This is very different to how the year started. In fact, the first two weeks of January 2018 saw the U.S. markets continue to hit all-time highs. This was followed by a 12% correction over two weeks lasting into February. A strong rally followed this correction. In short, it has been a volatile 3 months. Some of the major events or factors we see influencing markets in the near future are:

- The new chair of the Federal Reserve, Jerome Powell has increased interest rates since he began his role in February. Canada with a weaker economy seems reluctantly inclined to follow suit. We see two more rate hikes in Canada this year, and three more in the U.S.
- President Trump continues with his world trade agenda, which includes NAFTA and China. This story continues to unfold.
- President Trump has initiated attacks on Amazon and its business model. Jeff Bezos, Amazon's CEO, is now the world's wealthiest individual, surpassing Warren Buffett and Bill Gates.
- Facebook and other social media companies are facing a backlash over privacy leaks. This involves a little known company, Cambridge Analytics and others, and their potential influence on the U.S. and other countries elections. Additionally Russian influence on social media continues to make headlines in the news.

Investment Thesis

Our view remains the same as it has for over 30 years. The rear view mirror (the past) is always clearer than the windshield in front of you (the future). Our goal is to guide our clients through the storm of news, economic data, fear, greed, and investment noise. We try to do this in a calm, conservative, steady handed, and common sense manner. We are here to help. We want our clients to feel a high level of comfort, trust and peace of mind. We certainly do not have all of the answers, but we do our best to hold our clients hands' through the journey of investing.

General thoughts from Rob:

- We do not see the indices having double digit returns this year. We are looking to invest in the highest quality companies as their share prices go "on sale."
- Although the Canadian market is fairly valued there appear to be few catalysts for it to move higher. The resource (energy, mining, base and precious metals) sectors have performed poorly. These sectors we are typically underweight in.
- Investors need to invest beyond the borders of Canada for enhanced returns, proper diversification and safety. Canada represents under 3.00% of the worlds market

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capitalization. We cannot ignore the other 97%. Without question, investing globally over the long term adds to performance.

- The Canadian banks continue to be great investments, and have been for multiple decades. They are well managed, have high level of tier 1 capital, have paid their dividends non-stop for over 150 years, and have good overall performance vs the broader market. We as Canadians are fortunate to have the quality and strength of our big 5 banks plus National Bank.

Tax Alert: The new proposed measures that will impact Canadian corporate owners

In the summer of 2017, the government raised concerns regarding the issue of business owners enjoying tax benefits through investments held in corporations that non-business owners could not enjoy. In an effort to “level the playing field” they proposed some measures that they felt would do just that. However there was significant back-lash from the business and professional communities and perhaps as a result of this out-cry, the government has released in its 2018 budget a much less complex and modified proposal.

In general what the new rules propose is that going forward only a limited amount of money held for investment can be maintained in an active corporation before the preferential tax rates (small business tax rate) that active corporations enjoy will start to be gradually reduced.

The small business tax rate would be reduced when annual passive income (interest, dividends or other income from investments) is greater than $50,000. It would be completely eliminated when it rises above $150,000. These thresholds are not indexed for inflation.

Some additional and more complex rules have also been implemented regarding the refundable tax that Canadian-controlled private corporations obtain on the payment of eligible dividends. You should consult your tax professionals if this pertains to your corporation.

Three smart strategies for these volatile times
Source: The Globe & Mail

Has the market put in a bottom or will it make another material move lower? The short answer is: No one knows. Trying to time the market should not be your primary focus. Instead, choosing solid investments and adhering to a disciplined investment approach are priorities.

Looking back on 2017, daily stock-market moves were relatively steady without any major explosive actions. Consequently, the VIX index, also known as the “fear gauge,” hovered between 10 and 15 for most of the year. To put this in perspective, generally investors do not take serious note until VIX index spikes above 20. The year 2017 may have been the calm before the storm, or storms.

If we are entering a period of greater market volatility, here are three investments strategies that may help investors successfully navigate through potential market spikes and drops.

1 – Diversification
2 – Stick with the generals (or high quality names)
3 – Remove emotions when investing

Source: Jennifer Dowty’s article Three smart strategies for these volatile times the Globe and Mail

Changes to Investment Savings Accounts

Most clients will start to see on their monthly statements a new series of the BNS Tiered Investment Savings Account (ISA) beginning this month. In an effort to streamline and simplify their products, existing series of Scotiabank ISAs will be switched into the new DYN6000 series for personal deposits and DYN6002 for corporate deposits. Please note this is a non-taxable event.

USD Registered Accounts

We are pleased to announce that in the coming months as a firm we will be able to start offering USD Registered accounts (excluding Education savings plans) for our clients. We believe that these will be set up similar to Non-registered accounts where a single account number shares a CAD and USD part to it. Please stay tuned for updates in the coming months. This is a positive for our clients.

Community news – Breakfast of Champions

The 2018 St. Joseph’s Health Care Foundation’s Breakfast of Champions is fast approaching and is quickly filling up. The event raises funds to support mental health programs in the community. If you are interested in attending this event please feel free to contact a member of our team. This year’s speaker is Clint Malarchuk, a retired NHL goalie that has suffered from mental health problems. *Tickets can also be purchased at*

https://www.sjhcfoundation.org/breakfast-champions

Please feel free to join us at this event!