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Financial focus

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As we move into the Fall, it is time to start thinking about year-end planning. No, we don't mean planning the menu for your New Year's Eve celebration! What we do mean is now is a good time to review your portfolio and personal situation and consider strategies to reduce your 2016 tax bill.

In addition, many of the changes proposed in Justin Trudeau's first federal budget are slated to come into effect in 2017. It is worthwhile revisiting your financial plan to ensure it is on-side with any new legislation.

What's next for the world's most vibrant economy

One of the most talked about U.S. election cycles in recent history is coming to an end. Whoever wins the presidency is going to inherit a resilient and diversified economy that is on a clear path to recovery. For investors, that means opportunity.

U.S. Federal Reserve Chair Janet Yellen recently touted the strength of the U.S. economy, saying it had "made tremendous progress in recovering from the financial crisis." Yellen also noted that the labour market is nearing maximum employment, with an enviable unemployment rate of just 5%.[1]

Thanks to low oil prices, inflation is still moderate and interest rates remain accommodative, which is allowing consumers to spend — all positive factors for investors.

A MORE DIVERSE MARKET

Investing in the U.S. brings a number of benefits — starting with diversification. With about two-thirds of the Canadian market devoted to the financial and resource sectors, our market lacks the diversification of the U.S.

By sticking too close to home, Canadian investors may miss out on opportunities in sectors better represented south of the border — such as information technology, health care, and consumer products. In addition, many companies in these innovative sectors do a great deal of their business in foreign markets, which provides Canadian investors with international exposure.

ACCESSIBLE TO INVESTORS

With ready access to stocks listed on the S&P 500, NASDAQ, and other U.S. exchanges, it's easy and convenient to add U.S. exposure to a Canadian portfolio.

NEXT STEP: If you'd like to review your exposure to U.S. markets, we can help.

1 Bloomberg.com, "Yellen Says U.S. Near Full Employment, Some Slack Remains," April 7, 2016.

NATIONAL BANK FINANCIAL
WEALTH MANAGEMENT

Canada's economy: More than oil

Canadian equities were one of the top performers in the first half of 2016, helped by rising oil prices. Even though the price of oil is expected to moderate in the second half of the year, investors are realizing there is more to the Canadian economy than just oil.

National Bank Financial Economics and Strategy Group is maintaining its overweight position in equities, relative to its benchmark. In terms of sectors, the financials sector remains overweight, as gains in full-time employment continue to support the housing market.

As always, the asset allocation mix that's right for your portfolio will depend on your tolerance for risk and your investment objectives.

WHAT'S SUPPORTING CANADIAN EQUITIES?

Why have Canadian equities become so attractive? First, oil prices have moved up. Given the historically high correlation between the daily change of the S&P/TSX and the daily change of the price of oil, the strong performance of Canada's equity benchmark is not surprising. Even though there is limited upside for the price of oil, positive headwinds for the Canadian economy could continue to help equity markets.

In particular, the domestic economy will get a lift from the federal government's plan to support growth with significant stimulus. A competitive Canadian dollar should continue to help exporters, while low interest rates and a resilient labour market are all net positives for corporate profits.

CORPORATE PROFIT GROWTH

Excluding the energy sector, corporate profits were up in 2015, in part thanks to a reinvigorated manufacturing sector, which posted near-record profits last year. Exports rose to an all-time high in January, reinforcing the view that trade will contribute more to the Canadian economy than it did last year, helped by the lagged impact of the dollar's depreciation and an improving U.S. economy.

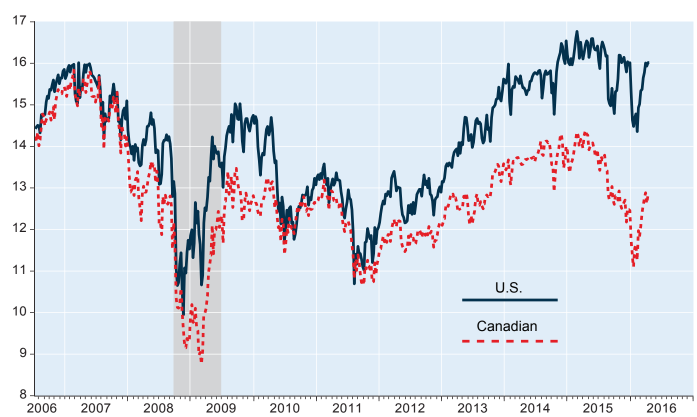
In addition, the Canadian equity market is showing value after underperforming many major markets the past few years (see chart). National Bank Financial Economics and Strategy Group believes the current backdrop is especially positive for the Canadian financials sector, as full-time employment remains at or near record levels in Ontario, Quebec, and British Columbia — which could stimulate consumer spending and credit growth.

National Bank Financial Economics and Strategy Group expects the Canadian economy to grow by a moderate 1.3% in 2016. As always, diversification remains key to managing volatility, especially for Canadian investors, as our market is heavily concentrated in the resources and financial sectors.

NEXT STEP: We can help you review your investing strategy. Call us today.

S&P/TSX: Still attractive

Price-to-earnings ratio (forward) excluding resource sectors



NBF Economics and Strategy (data via Datastream)

The difference between U.S. and Canadian forward price/earnings ratios (excluding the depressed resource sectors) is high by historical standards, suggesting that the TSX still has upside.

Survey: Investors earn more with their advisors

Navigating the choppy markets we've seen over the past few years can test even the most seasoned investor's commitment. This kind of market climate shows the real value of advice and professionally-managed mutual funds. Recent research suppports this argument:

- 84% of mutual fund investors say that they are satisfied or very satisfied with the advice provided by their advisors.[1]
- 92% of investors say they have earned more from their investments by working with an advisor.[2]

It's not just individual savings' rates that increase. Advice delivers benefits to individuals and families — and even the economy. In fact, if an additional 10% of Canadians worked with an advisor, household wealth would increase by $4.8 billion and the Canadian economy would grow by an additional $2.3 billion over the next 45 years.[3]

Whether investors start small or large, the benefits of advice accrue to all. About a quarter of mutual fund investors had less than $5,000 in financial assets when they started working with an advisor, and more than half had less than $25,000.[1]

1 Pollara Research, Canadian Investors' Perceptions of Mutual Funds and the Mutual Fund Industry, 2015.
2 Investment Funds Institute of Canada, Advisor Insights, November 2015.
3 The Conference Board of Canada, Boosting Retirement Readiness and the Economy Through Financial Advice, September 2014.

Democrat or Republican: Do presidential ties sway the U.S. economy?

The world's attention has been tirelessly focused on the dramatic U.S. presidential election cycle for the past year. During every presidential election, the question invariably arises: Which party is better for the economy — Democrats or Republicans?

To find out, two Princeton researchers analyzed a 64-year period beginning with President Harry Truman in 1945 and ending with President Obama.[1] Here's what they found:

Party in power	Democrats	Republicans
Average annual gain in S&P 500 Index	8.35%	2.7%
Average annual GDP growth	4.35%	2.54%
Total rise/fall in unemployment	- 0.80%	+ 1.10%
Total number of quarters of recession	8	49

While economic indicators show superior performance with a Democrat as president, the authors point out that global forces may account for the Democratic edge rather than the policies of the respective governing parties.

1 Alan S. Blinder, Mark W. Watson, Woodrow Wilson School and Department of Economics Princeton University, "Presidents and the U.S. Economy: An Econometric Exploration," July 2014.

A clear view on short-term price swings

Large, single-day losses can be dramatic — and often headline-grabbing — but they are not necessarily signs of a bad investment.

CONSIDER THE CONTEXT

Stock prices move up and down in response to a variety of influences. These can include the company's reported earnings being different from what the markets anticipated, political or management turmoil, extreme weather, scandal, and so on.

On their own, none of these factors are necessarily cause for panic. The market is simply adjusting the price of the company's stock because, at the moment, there are more sellers than buyers.

RECALL YOUR CRITERIA

A drop in share price can create an opportune time for us to review the stock based on the criteria that prompted buying it in the first place: its fundamentals, future prospects, and appropriateness for your portfolio. These factors generally shouldn't be clouded by short-term price swings.

If we determine that the stock continues to meet your needs, it may be worthwhile to increase your investment. After all, a significant price drop for any other product would be considered a sale and a potential opportunity to acquire more at the lower price.

And if the stock no longer meets your needs, then yes, it could be time to sell.

NEXT STEP: If you have concerns about any sudden changes in share value, please call us to help you determine whether this may be a potential opportunity to buy or sell.

Defensive investing looks for stability

There's an adage in sports that states "defence wins championships." Many investment experts and investors feel the same way about their portfolios.

NON-CYCLICAL HOLDINGS

A defensive investment is one that generally remains stable throughout all phases of the business cycle. These investments are also called non-cyclicals. Typically, defensive investments outperform the market during recessions but lag market leaders during economic expansion.

In times when people watch what they spend, what do they really need? Answer that question, and you've got a defensive investment.

FOUR KEY SECTORS

There are four economic sectors commonly identified as defensive:

- **Utilities.** Because water, gas, and electricity are used at all times by everyone — consumers, businesses, government — the utilities sector is considered defensive.
- **Consumer staples.** Since we all need to do laundry and brush our teeth, we need to purchase consumer staples regularly and frequently, regardless of the economy.
- **Health Care.** Medicine and medical goods and services are always in demand. In fact, demand has been growing in recent years with an aging population.
- **Telecom.** For decades, consumers have treated Internet and wireless technology as staples, making this a defensive sector.

BENEFITS OF THIS STRATEGY

Defensive investments offer some distinct benefits, including these three:

1. Protection from market cycles. Holding equity investments in defensive sectors can help cushion your portfolio when the economy is in a recession. Revenues of companies in defensive sectors typically depend very little, and sometimes not at all, on the health of the economy.

Long-term buy-and-hold investors maintain these holdings to help provide downside protection during market slides, with no need to try to time the market. More aggressive investors may temporarily add defensive holdings at appropriate times during the market cycle.

2. Potential outperformance. Traditionally, diversifying a portfolio with defensive investments has primarily been about reducing overall risk, but past performance shows that investors have also benefited from enhanced returns. Example: for the first quarter of 2016, utilities and consumer staples led the U.S. market, and for the past five years, one or more defensive sectors have finished in the top three.[1]

3. Enhanced stability. In volatile markets, non-cyclicals can help bring a measure of stability to your investment program.

NEXT STEP: We can position the defensive component in your portfolio to be a stabilizing factor, find an investment opportunity in today's market, or both. Call us to discuss your ideal game plan.

1 Standard & Poor's, "Sector Returns by Year, 2007 — 2016."

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