

Interest Gained™

Our best insights and updates, every quarter.

Feb. 2016 **Issue No. 06**

Featured Articles

2016 Investment Outlook

Global Equity Strategy in 2016

The Lost Decade & The Importance
of Dividends

Tax Update

2016 US Equity Market Outlook

Using Options as a Defensive Strategy

Your Family & Its Shared Assets

"It's a new year, and we'll show you what this recent market activity means for 2016. We'll also outline the new tax increases, and a few strategies to boost income in down markets."



2016 Investment Outlook

Gary Perron, CFA, Portfolio Manager, Founder

With 2015 and January behind us, here's a review of 2015 and a look ahead into 2016.

China is the big economic elephant on the planet, with the Shanghai Composite Stock Index down over 40% since its high in June of 2015. The markets have been focused on the slowing down of the China economy thereby causing downward pressure on commodities and commodity-exporting countries (i.e. Canada, with the TSX down 12% in 2015), and also affecting the world's major stock exchanges. A global GDP slowdown is somewhat discounted in world markets; nevertheless, the markets will be focused on any changes in forecasts for world growth in 2016.

A quote from The Economist's 2016 forecasts:

"When asked about China's slowdown, Lloyd Blankfein, the head of Goldman Sachs, likes to point out that although the 20th Century belonged to America, there were years when the economy misfired. In 2016 business plans around the world will be re-written to reflect China's lowest growth rate since the post-Tiananmen slump in 1989-90. Most bosses will find that China's great deceleration hurts them only a little. The bravest will view it as an opportunity."

PPWM's managed account focus holds a majority in US businesses. The S&P 500 index in the US was basically flat for 2015, but down 3.5% in January this year. The US is where we continue to find our best investment opportunities, while most Canadian companies continue to be hampered directly or indirectly, through their ties to global commodity prices. Also, we are finding growth in revenue and earnings along with increases in free cash flow in the US, where there is lesser negative effect from China's negatives. Canadian businesses and the Canadian dollar (CAD\$) are very closely correlated with commodities, and we all know what happened to the CAD\$ in the last year; indeed, it is easy to remember when the CAD\$ was equal to the US\$ – just three short years ago. In our managed accounts, we are currently adding Canadian Exporters, whose revenues and earnings will be positively affected by the lower dollar.

It is also important to note that the US economy is enjoying a strong and improving jobs market with real personal income growth, while the Canadian economy is still decelerating. Domestically, the US economy is showing growth, while the US export market is decelerating in line with US\$ strength. This has created some great opportunities in both US domestic and global businesses. We also have the ability to hedge the currency within our private pools, which could make a material difference to CAD\$ returns.

This year will have significant driven events, bringing an extra element of unpredictability that will surprise the marketplace and cause inevitable volatility. Our PPWM investment style, and our policies of investing in commercial businesses that generate free cash flow (with the exception of resource businesses), have historically delivered value-added returns and comfort in highly volatile times. In our North American and US private pools, over 90% of our individual stock holdings increased their dividends in 2015. The majority of our holdings have active stock buyback programs. This confirms our private pool investment styles, mandates and returns in 2015. Our private pool alternative portfolios, albeit a short history, are proving that this structure offers similar, or less, market risk and better returns than the traditional, long-only structures. PPWM now has three alternative structures and a traditional monthly income private pool, delivering superior returns.

In this newsletter, Jason Isaac, lead manager on the North American Enhanced Dividend Pool has an article describing our Global perspective, while Darrin Erickson, lead manager of the US Enhanced Growth & Income Pool, describes our US Equity Outlook. Chris Bolton, co-lead of the Monthly Income Pool, addresses our Canadian strategy. Shawna Perron, co-lead of the Monthly Income Pool, describes the option defensive strategy and re-visits our theme on family values. Our investment team has continued to add depth, breadth and strength during the last two years and, together, we look forward to the challenges and, thereby, the opportunities of 2016.

As we move forward, we are asked with increasing frequency what value we bring as an **'Independent Wealth Manager'** when compared to bank-owned investment managers. In January, I saw the box-office hit

"The Big Short." In seeing the docu-movie, you too may see examples where banks lose sight of the client's best interests. Perhaps sheer size takes organizations further and further away from their clients. The banks seem full of conflicts of interest. On the other hand, PPWM sits 'shoulder-to-shoulder' with each of you; our revenue comes from a single source of income founded on being close to you, knowing you and looking after you, person-to-person. We don't think the banks can say the same, especially considering that our team has grown with you, over more than 30 years. We know that independence is enormously important to you and we know that independence is equally important to us.

Cheers to 2016!

Gary Perron, CFA
Portfolio Manager, Founder