PERRON & PARTNERS
WEALTH MANAGEMENT

Interest Gained™

Our best insights and updates, every quarter.

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Featured Articles

"We'll show you the sectors our research team is favouring, when to justify an active management fee, and – with the election behind us – how your wealth will shift with the political tides."

Changing Investment Climate

Gary Perron, CFA, Portfolio Manager, Founder

Welcome to our fifth newsletter, marking our 2nd anniversary.

Yes, it's been two years since the original four left the big bank and now we are a team of 11 professionals.

One advantage of independence is that we can change our asset management priorities without political or bureaucratic interference. Within one year, the political environment has changed in Alberta and Canada, where the high-net-worth households/individuals and corporations have become a target for the left political parties, making asset allocation more challenging. Top Alberta individual taxes will rise by **23%** in 2016 over 2015. In 2012, according to Stats Canada, the top 1% of income earners paid a staggering 20% of the total federal and provincial taxes. The top 10% paid 54% of all taxes, while the bottom 50% paid 4%.

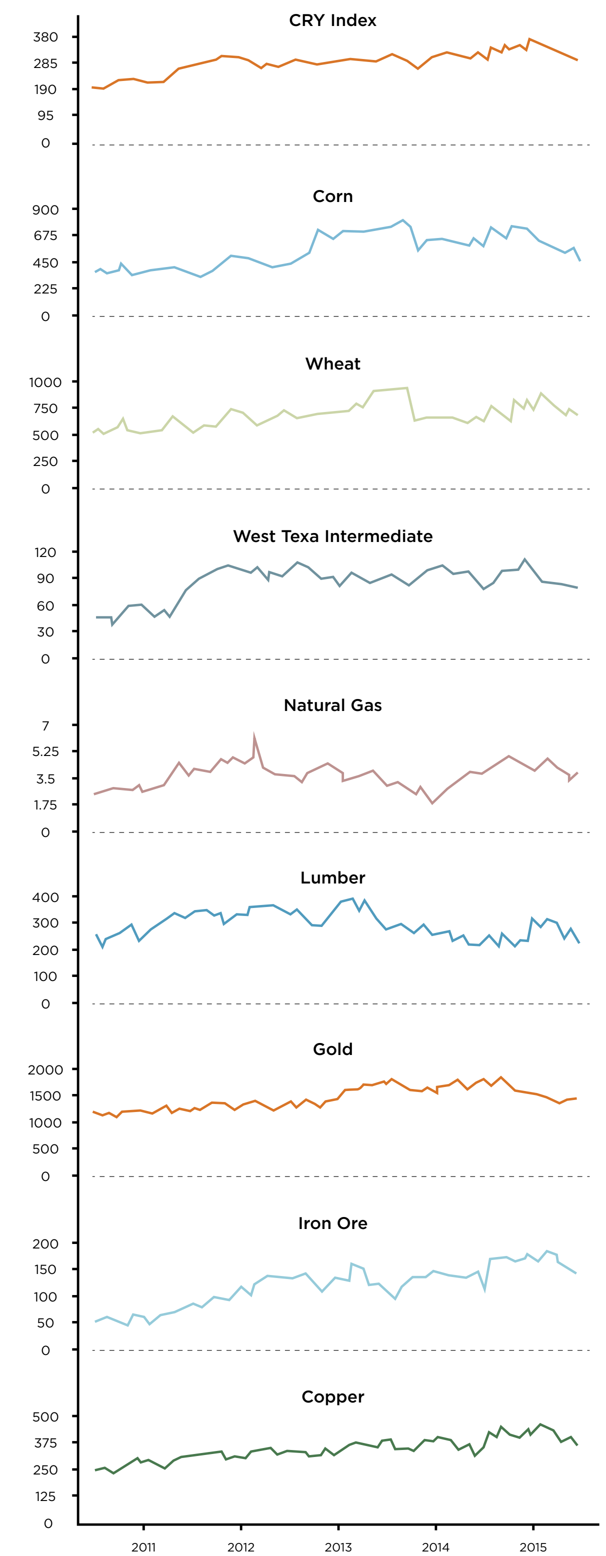
The new left politics are definitely going to disincentivize the productive to contribute as they have in the past and total tax revenues will decline. This has been proven again and again by various countries around the globe, most recently in the UK. These left governments will continue to spend more than the revenue they receive and will in-debt the country for the benefit of union employees and the unproductive, who receive more benefits from government programs than they pay in taxes. As Margaret Thatcher stated, "The problem with Socialism is that you eventually run out of other peoples' money." Unfortunately this could last for a decade in Canada.

Our challenge at Perron & Partners is finding businesses in which we wish to invest. One of the variables is the effective corporate tax rate of the business. The lower the effective corporate tax rate, the more the company has to reinvest into the business for growth, to increase dividends or to buy back stock in their company. Canadian governments continue to raise corporate taxes, which is confiscation from shareholders, and this affects the underlying valuation of the business. This makes Canadian companies less attractive for investment relative to US or Global companies.

Case in point, one of our most recent screens was finding public companies over the last 3 years that had (top line) revenue growth of at least 3%, dividend growth of 7% and common shares outstanding decline by 2%.

We ran our screen on the companies within the S&P/TSX Composite, and there were only three companies that met these variables. In the S&P 500, there were over 44 companies that met these variables, of which we own eight in our accounts and pools today.

Canada's economic growth and success greatly depends on commodity prices. HSBC Canada's Chief Economist David Watt stated, "Until Canada overcomes its productivity and competitiveness hurdles, it will continue to feature cyclical behaviours similar to those of emerging market economies." For equity investors, Watt's comparison will come as no surprise. The S&P/TSX



Source: Bloomberg

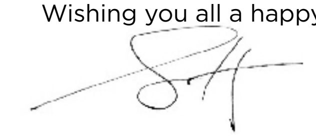
Composite index has tracked the movements of the MSCI Emerging Markets index closely over the last 10 years. To the left, we have charted the commodity index (CRY Index) and some of the particular components that will affect Canada's economic growth. Our job of finding Canadian businesses in which to invest will be challenging until we have a price recovery in commodities.

All commodity charts have indicated a reasonable decline in price in the last five years. Commodities are called cyclicals for a reason. There will be a price recovery, but the toughest judgement to make is on the timing. It could be three months or five years, and for each commodity it will be different. Our portfolios currently have a large non-cyclical component (financials, staples, discretionary, etc.) and the cyclical companies remain a minority allocation. The challenge is knowing when to enter back into the cyclical space and increase our exposure. Today, we are underweight cyclicals and will watch the commodity fundamentals to improve before we increase our portfolio weights.

In summary, we continue to focus our efforts on identifying the best businesses that meet our investable metrics and the majority of our new investable companies are outside of Canada. Our managed accounts continue to focus on owning non-Canadian companies and we are constantly looking to expand our resources toward a global effort.

This newsletter addresses: active share in our portfolios and pools, personal tax increases and how they will affect our investments, structural issues between US and Canadian investments, sector strategies, a balanced portfolio mandate and a discussion around family financial planning and values.

Wishing you all a happy fall!



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