More Bottom Line

... An Investment Update from the Retire First TM Team

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From the Desks Of:

Doug Allan Brad Lamash Chuck Blackburn Kate Allan Scott Loucks Todd Thiessen

World Index Report

Annual Compounded Returns as of 05/02/2018

1 year... 3.04% **3 year... 7.07%**

5 year... 12.48% **10 year...5.51%**

FX Report *All Prices as of 05/02/2018*

CDN/USD ...0.778 CDN/GBP... 0.572

CDN/EU...0.650 CDN/AUD... 1.038

CDN/MXN... 14.853

CIPF Canadian Investor Protection Fund MEMBER

Top Picks

- **Sunlife Financial Inc.**
- **Russel Metals Inc.**
- **Polaris Infrastructure Inc.**
- **Pinnacle Renewable Holdings**
- **Premium Brands**
- **Parkland Fuel Corp.**
- **Step Energy Services Ltd.**
- **Air Canada**
- **Stelco Holdings Inc.**
- **Dollarama Inc.**
- **Brookfield Business Partners L.P.**
- **Empire Co. Ltd.**

IIROC Investment Industry Regulatory Organization of Canada

Easy Money Days are Fading Away By Doug Allan

Rising interest rates, although well anticipated, have been taking their toll on the equity markets recently. A narrowing yield curve is often a bullish sign as it generally signals a strengthening economy, but the problem currently seems to be the psychological 3% level on the 10-year US government bond yields.

The rising 10-year bond yield has helped hold the spread between the 2-year and the 10-year bonds to around +.5% in favor of long term over short term. It is highly anticipated that short term rates will likely rise again three more times in 2018 in the USA and maybe two or three more again in 2019. This will either push the yield curve into negative territory or, at best, we can hope for along term US interest rate rise to 3.5% to delay the sounding of the psychological inverted yield curve when 2-year rates rise above the 10-year rates. Given the current consensus opinion on US rate increases, that would place the inverted curve some time in 12 to 18 months from now. This continued increase in long term bond yields from 2.5% on Dec 31, 2017 to the current 3% and possible 3.5% within 12 months will all but nullify the benefits of the tax reduction that was implemented in Dec 2017 by the current US administration. This effectively removes a solid foundation for our current US led bull market thesis. We are still going to see a pickup in overall US GDP caused by the lower tax rates and increased stock market buybacks caused by the capital repatriation that will be occurring by many of the US companies with large foreign holdings.

Sadly, in Canada we will be following the US lead on rising interest rates; however, we do not get the benefit of the lower tax rates, so we have nothing to help offset the downward pull of the rising interest rates. In fact, we are seeing the opposite as corporations like Campbell's Soup and McCain's Pizza, among others, move to the USA to get the long-term benefits of lower tax rates. The best we can look forward to in Canada is getting some side effects of the stronger US economy. Hopefully higher commodity prices will add some value.

While inverted yield curves are always associated with stock market recession, history has shown they are not instantaneous. Many factors are always at play that can delay the recession often 12 to 36 months from the time the curve first goes inverted and can often be associated with strong economic growth. Their will be some upside in the US as GDP continues to surprise to the upside. In Canada; however, active stock picking will shine as the indexes continue to struggle going forward.

Gain/Loss Report and Tax Loss Selling By Brad Lamash

As a value-added service, Retire First Ltd. provides clients who have cash/margin accounts with a gain/loss report for the calendar year. Traditionally, we mail it out early February on a yellow piece of paper.

This report summarizes all the sells that happened in the account along with their purchase price. When reviewing the gain/loss report it should NOT be viewed on a stand-alone basis. Many clients misinterpret this information. Each tax year, we get many calls where people see a tax loss on the report and think that they had a negative return on their account. This is not necessarily the case.

Tax loss selling is a tax strategy that involves the selling of unprofitable securities and using the realized loss to offset capital gains realized in the current year, thus reducing the amount owed. As a side note, capital losses can be carried forwarded indefinitely.

An example would be:

You invest $100 in 2 stocks, each having a market value of $50. One stock goes down to $45 and you sell it triggering a capital loss of $5.00. You continue to hold the second stock and it moves up to $60.00. So, on your gain/loss report it would show a loss of $5.00 or a negative return of 10% but your actual return on your account is 5% at that particular moment. Capital gains/losses and total returns are two separate things.

Foreign Investment in Canada by Scott Loucks

In stark contrast to last year in Canada, 2018 has seen net foreign purchases of portfolio securities in the first 2 months of the year fall to its lowest level in 4 years and its second lowest level since 2007. So why are people and funds from outside of Canada no longer investing in our markets and economy? I think it is safe to say that the increased taxation of our corporations, an uncertain economic environment, and a stagnant Canadian dollar must be large contributors to the decrease.

With the emergence of numerous punitive taxes at both provincial and federal levels and the recent addition of a carbon tax, foreign investors feel there is little meat left on the bone when comparing Canadian corporations to their US counterparts. With margins being eaten up in taxes and levies and royalties, investors are moving their hard-earned money to more tax friendly environments like the US where recent tax reform has reduced corporate taxes drastically.

The uncertainty in the Canadian market place is also a deterrent, as negotiations on a new NAFTA agreement are dragging on with no end in sight. Many feel that Canadian corporations in multiple sectors are going to get the short end of the stick and would rather avoid the unknown all together. Add to that higher personal and corporate debt loads, tighter monetary policy, and B20 regulations affecting the residential housing market and there are a lot of reasons to avoid Canada.

Finally, our dollar is not gaining any strength against our US counterpart as traditionally it has when the price of oil increases. Last time oil was around $70, the Canadian dollar was much stronger and was pulling people into the market place for currency gains, but that risk/reward on that trade is no longer favorable with all the other issues over hanging the Canadian market place. So, for many foreign investors Canada seems closed for business at this point in time and it is going to take some changes at the government level to lift the cloud on our economic outlook going forward to encourage that money to come back.

Don't Compare Yourself to Others By Kate Allan

In the investment world there is not one size that fits all. Everybody is running a different race, so it does not make sense to compare your returns to someone else's returns. Comparisons are unproductive and corrosive. As a seasoned investor; it is important to stick to your philosophy, goals, and lessons learnt. It is hard to stand by and watch others make money while you sit on the sidelines, but it might be the best choice for you.

It is important to note that not all investment styles work in all economic environments. You have to be willing not to participate in everything that goes up and only invest in things that fit your game plan. You don't have to catch every trend and hot stock. If you finally succumb to the urge of buying the latest flier, you are usually closer to the top than the bottom and usually end up buying high and selling low.

Some recent euphoric stocks would have been Bre-x, Nortel, marijuana stocks and crypto currencies. We are not saying these are a bad area to be in and that money cannot be made. All that we are saying is that if you are a conservative investor looking for safety or dividends, you should not alter your game plan as altering can cause you grief as nothing is guaranteed.

Your risk tolerance and goals are probably not 100% identical to the person you are comparing against. When people say they made a killing on stock/sector "XYZ", that is probably correct, but you may not know what their overall portfolio return is or their risk tolerance.

Income Ideas

Yield at a Reasonable Price (YARP) All Prices as of May 2nd, 2018

Sunlife Financial Inc. (SLF $52.97) is an international financial services organization providing a diverse range of wealth accumulation and protection products and services to individuals and business entities around the world, although primarily in Canada and the USA. In addition to the 3.6% dividend, we can expect some growth. Rising interest rates are a positive for insurance companies as product offerings become more attractive as they can earn more income from long term investments.

Russel Metals Inc. (RUS $30.64) is one of the largest metals distribution and processing companies in North America. They operate in three areas: metal service centres, energy products, and steel distributors. The current yield of 5.2% is well supported with a solid track record of growth over the past few years.

Polaris Infrastructure Inc.(PIF $18.96) is a Toronto based company involved in geothermal energy production in Nicaragua. The steady production growth from 50 MW in 2017 to 62 forecasted in 2018 and 68 forecasted in 2019 provides a solid underpinning to the dividend increase expected. The dividend has been increased 4 times in the last 8 quarterly payments by 50% from $.10 per quarter to $.15 per quarter, making the current yield 3.8%

Pinnacle Renewable Holdings (PL $14.58) produces pellets for commercial heating applications such as industrial and residential pellet fuels. They offer wood pellets for global utilities and power generators as fuels to produce base load power. The company just recently went public and pays a 4% dividend currently, with some solid underlying growth in the business to be expected.

Premium Brands 4.65% April 30, 2025 (PBH.DB.G $102.49) is a food processing company with manufacturing facilities in Canada and the United States. The Company markets branded specialty processed meats, pre-packaged sandwiches and burgers, and frozen foods. Premium Brands provides products to food service, retail, and wholesale customers in Canada and the United States. Besides getting a current yield to maturity of around 4.1% on this convertible debenture, there is also a conversion feature which allows you to participate above if the common stock was to rise above $182.50 over the life of the debenture.

Parkland Fuel Corporation (PKI $30.46) is the largest independent fuel and related products distributor in Canada, supplying to both retail and commercial markets, while focusing on non-urban locations. The strong growth profile, robust acquisition pipeline, healthy balance sheet, and stable 4% dividend make this an interesting idea at the current level.

Growth Ideas

TOP PICKS

For more ideas visit our Top 20 at www.retirefirst.com

Step Energy Services Ltd. (STEP $11.65) operates the third largest fracking fleet in Canada. They went public in May of 2017 with ARC Financial maintaining a controlling interest. Their recent acquisition of US based Tucker Energy Services should allow for growth to continue primarily in the Oklahoma region of the USA while we wait for the services business to pickup again in Canada. This would be an excellent way to position for a possible LNG services play later in 2018.

Air Canada (AC $24.81) provides domestic and international carrier service. The deleveraging initiatives combined with their cost transformation programs are adding solid value to what is already a cheap story relative to its American competitors. We believe continued solid execution will allow this gap in valuation to the Americans to narrow over time.

Stelco Holdings Inc.(STLC $23.80) operates two steel mills in southern Ontario. The company went public in 2017 after resolving all their liabilities to the unions and remerged as a debt free company with a well experienced management team. They are having industry leading profitability and currently have unused idle capacity, which should allow for some growth as demand allows going forward. A good way to play the upcoming NAFTA closing as we see the steel tariffs as a short term problem currently for Canadian producers.

Dollarama Inc. (DOL $148.30) is a Canadian retailer operating in the high value small-format retail segment. Their recent partnership with Dollar City in Central America should allow for some solid growth in these high population regions as they roll out their successful format to a base population over double the target market in Canada. This should allow for the historic double-digit growth rate to continue into the foresee able future.

Brookfield Business Partners L.P. (BBU.UN $45.72) acquires and manages businesses with high barriers to entry, low product costs, and potential to benefit from their expertise. Their objective is to make long term returns more than 15% without undue risk. They have operations in many different industries worldwide. A solid long-term growth story with good diversification.

Empire Co Ltd. (EMP.A $24.97) owns Sobeys, Canada's 2nd biggest grocery chain (behind Loblaw's). Sobeys runs more than 1500 food and drug stores across Canada under names such as Sobeys, Safeway, FreshCo, IGA, Foodland and Lawton's Drugs. They also operate more than 350 retail fuel locations and a 42% stake in Crombie REIT as well as a residential property developer called Genstar. Their new partnerships with Ocado Group has them currently building an online grocery ordering, automated fulfilment and home delivery service that should be launched in 2020.

Final thoughts..

What are the Consequences of US Tax Reform to Canadian Investors?
by Todd Thiessen

1. Considerations for Canadian investors

Since US tax reform, Canadian companies have been focusing on companies that win from an overall tax level. These companies have large US operations and, given Canada's "territorial" approach to taxation, may have realized lower overall taxes. However, three new tax items to take into consideration that do not benefit Canadian companies with the new rules are as follows:

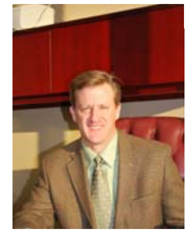
- Canadian companies have lost a competitive advantage in that lower US rates makes Canada less attractive destination for head offices
- Manufacturing in Canada is less competitive Changes in the depreciation schedule means investment in equipment is immediately eligible for full depreciation in year one compared to many slow years of graduated depreciation in Canada.
- M&A activity will be more active in the US due to the lower rates. In fact, we may see Canadian companies being bought out by Americans and operations moved to the lower tax jurisdictions.

2. Repatriation of US earnings

The 2nd component to the revised tax code is the repatriation of funds of US companies that are held outside of the USA. Somewhere between $1 trillion and $1.5 trillion will be repatriated back to the US as a result. This is monies that are held in foreign banks earning interest income. The repatriation rate is 15.5% and that money can come home to the US where companies will use it to increase share buybacks, use for capital expenditures, and even M&A activity. It is believed that M&A activity and share buy backs could grow by as much as 25% because of this new law. This again gives US based companies a huge advantage when it comes to the use of their capital.

US tax reform was a defining event that gives US based companies a very distinct advantage. Businesses will be encouraged to invest in the US versus Canada. We are already seeing capital flee Canada due to other uncertainties, the tax revisions do not help.

Stocks Not to Own **By Chuck Blackburn**



In the investment world, investors are constantly bombarded with stocks they just have to own either through television programs, newspapers and journals, or internet postings. In reality, your long-term success will have more to do with the bad stocks you never bought or sold quickly enough before real losses increased.

For example, in the first quarter in Canada the TSX was -4.5%, but the two largest sectors are financials (35% weighting) and energy (19% weighting) and they were down 7% and 13%, respectively. If your portfolio just had the average stock but completely avoided those two sectors, your return would have been +0.4%. You wouldn't have done anything magical like picking a red-hot stock or sector, you would have just avoided the worst sectors. This is why it is very important to be aware of what sectors are hot and which ones are cold and this alone can dramatically affect your rate of return. Being diversified and owning a little bit of everything just for the sake of safety is often the surest way to guarantee mediocre returns. It is much more important to be very specific about exactly where you put your capital to work!

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