More Bottom Line

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

Suite 101 4610 49th Ave Red Deer AB T4N 6M5 (403) 314 5553 (877) 314 5553

From the Desks Of:

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

World Index Report

Annual Compounded Returns as of 08/30/2018

1 year… 15.16%	3 year… 8.86%
5 year… 12.74%	10 year…7.10%

FX Report *All Prices as of 08/30/2018*

CDN/USD ...0.770 CDN/GBP... 0.592

CDN/EU...0.660 CDN/AUD... 1.060

CDN/MXN... 14.727

CIPF Canadian Investor Protection Fund MEMBER

Top Picks

- ◊ Fiera Capital
- ◊ IBI Group
- ◊ Dream Global REIT
- ◊ Enbridge
- ◊ Premium Brands
- ◊ Superior Plus
- ◊ Pinnacle Renewable Holdings
- ◊ Bank of Nova Scotia
- ◊ Alphabet
- ◊ Transcontinental
- ◊ Brookfield Business Partners L.P.
- ◊ Wildhorse Resource Development Corp.

IIROC Investment Industry Regulatory Organization of Canada

Are We There Yet? By Doug Allan

Trade wars dominate the investment climate as economies around the world struggle with the new America. US GDP in the 2nd quarter of 2018 broke 4% for the first time in four years as exports continue to pickup. On the flip side, most other economies around the world are seeing their economies growth rates contracting. So far most international stock markets, including Canada, are struggling to stay afloat; while only the USA seems to be moving forward. The risk of a major credit default in one of these other international economies would certainly introduce another possible market shock.

The US dollar index has been on a solid upward move, gaining 7% against a basket of currencies in the second quarter of 2018. Surprisingly, our Canadian dollar held up better than most; down less than 1% over the same period. Currently US 10-year government bond yields at 2.86% are .6% higher than 2.26% on the Canadian 10-year government bond yields. That 25% extra yield alone should help push the Canadian dollar lower against the US dollar over the winter. Canadian household debt relative to US continues to rise. As a result, a rising interest rate trend will hinder consumer spending in Canada more dramatically than the US. Other factors such as trade talks and diverging taxation issues, among others, all have potential to introduce negative surprises along the way. Its not hard to imagine a weaker Canadian dollar ahead.

The US Federal Reserve is committed to raising interest rates into the foreseeable future. US low unemployment and rocketing corporate after-tax profits are going to continue to add more fuel to the fire. In the meantime, the ever-increasing long-term easy credit continues to fuel the huge stock buy back trend that has been aggressively buying on the dips. This will likely only stop when the interest rate gets to a high and sets off a large unexpected credit default. At the current rate of US federal reserve tightening, that type of an event would likely be years away yet.

In a market filled with news feeds and political biases during potentially upcoming corrective periods, we urge investors as always to focus on what is proven to drive the market (earnings) as opposed to what many will fear will drive the prices in the near term. Ultimately, if the S&P 500 operating earnings are directionally higher, then any pullback should be temporary. An inverted yield curve will be a head wind that will eventually take its toll on those projected earnings. Remember; however, that the reason interest rates are rising is that the economy is doing great. The underlying strong economic trend will likely continue to grow even as rates rise. There is a definite lag effect often a few years in the making before the credit dries up and the resulting economic contraction occurs. We are not there yet.

Headwinds for Canadian Oil By Scott Loucks

Anyone who follows the price of oil in Canada knows that the price that we as Canadians receive for our oil is not what you hear on a regular basis on the news on TV and radio. North of the border we get Western Canada select pricing as opposed to the more commonly reported on West Texas Intermediate. Currently, the spread between the two is at slightly more that $30/ barrel meaning we are getting, on average, $30 less for every barrel of oil we sell than what we typically hear on the news. Clearly that is a big difference and a substantial problem for Canadian producers. If that wasn't bad enough, it looks like it could get worse for us as a new International Marine Organization (IMO) rule that will come into effect in 2020 mandates 86% less sulfur in shipping fuel. Most feel that this will increase the demand for lighter crude and will put downward pressure on the heavy crude. The increased demand for the lighter crude without the sulfur will mean heavy crude will get pushed more towards refineries that turn heavy crude into other fuels that garner a higher value like gasoline and diesel. This will be one regulation that will definitely put downward pressure on heavy crude prices.

Once we get over that hurdle in the year 2020, many experts believe that the US could be energy independent just one short year after that. It is projected that by 2021, the US could be a net zero energy importer. Now that doesn't mean that they will import zero energy from Canada, but they will not have to rely on imports to meet their energy needs according to the data. So, if we can't sell it because of the shipping fuel restraints, and don't have the need or demand out of the US, where will we sell it and at what discounted price? Looks like we are going to need pipelines, upgraders, refineries and possibly some new options if we want to continue to compete in the marketplace and get competitive pricing for our exports.

What Does a Strong U.S. Dollar Really Mean? By Chuck Blackburn

A strong USD is generally good for Americans; most international trade is in USD, most commodities are priced in USD, the largest percentage of foreign reserves held by governments are in USD. Finally, in 2014 the U.S. ended their easy money experiment that started after the financial collapse of 2008 and they began to increase interest rates. They have increased rates a quarter point two times so far this year and it is widely expected for them to increase two more times before year end. With the U.S. economy growing at almost a 3% clip the last 5 quarters and with the interest rates increasing in the U.S., it makes the USD quite attractive for investment purposes and often results in the USD increasing. The largest affect worldwide; however, is certainly with commodities; the USD last peaked in Jan. '02 and over the next 6 years its value fell by almost 40%. In turn, oil went from $20 to $140, copper went from 75cents to $4, gold went from $300 up to $1,000 and the emerging markets index increased 6-fold. Of course, if the USD strengthens, the opposite can certainly happen and all countries affected by commodities and all countries who trade heavily with the U.S. will feel it.

It is important to remember that Donald Trump is clearly attempting to take the U.S. back to its world dominance of the late 90s and this will hugely benefit Americans. With the U.S. being an 'importing nation' all their imports become cheaper, all their commodities become cheaper, travelling abroad for Americans becomes much cheaper, and all emerging economies around the world will see their growth stagnate and really put the U.S. back in control of most trade. Of course, one major difference from the late 90s is back then the U.S. was a huge importer of oil and gas whereas today they could be energy independent within a couple years. So, this likely doesn't play out exactly like the late 90s, but there will certainly be some similarities.

Stock Buy Backs By Kate Allan

Pension funds reaching for yield over the last decade have increased their asset allocation to corporate bonds. This resulted in the leveraged buyout (LBO) boom that occurred in 2006 and 2007 after the yield curve went inverted in 2005. The results ever since have been dramatic as the corporations use the increasingly easy access to credit to buy back their own company stock. Many are forecasting a similar LBO boom may occur when the US yield curve goes inverted in 2019.

The Wiltshire 5000 Index had 5000 stocks in it when it was created in 1970. That number grew to 7562 stocks in 1998 based on market capitalization and liquidity. In 2005, right before the big leveraged buyout (LBO) strategy took hold, that number had fallen back closer to 5000. Despite new IPOs the number of stocks in the Wiltshire 5000 is now down to 3486 at the end of June 2018.

Funny how trends change. It wasn't that long ago that corporations went to the market to raise capital to grow their business. Now, with the use of LBOs, the companies buy back their stock from their investors. This stock buy back trend has been a solid force in helping to support the market from major pullbacks along the way.

In the end; however, this next forecasted LBO boom has the potential to worsen the ensuing credit bust that is coming. The use of credit instruments to fund stock purchases increase the overall systemic risk of the market place. Some sort of a panic run on the bank type of news usually triggers the credit crisis and the resulting bear market in stocks. Given that the yield curve has not yet inverted, it's likely the interest rate increases leading to this type of a major default is still a few years away.

Income Ideas

Yield at a Reasonable Price (YARP) All Prices as of August 30, 2018

Fiera Capital 5% June 30, 2023 (FSZ.DB $104.25) is Canada's 9th largest overall asset manager in Canada, with $128 billion in assets under management. Like most asset managers they earn fee revenue from the diversified asset base spread out around the world, making their revenue stream very stable. At the current price, the yield to maturity on this corporate debenture is around 4.1%. In addition, the underlying conversion feature allows you to participate in any upside in the underlying share price above $18.85 over the life of the bond, adding some additional upside potential.

Dream Global REIT (DRG.UN $14.59) is a real estate trust that invests exclusively in the real estate sector outside of Canada. They currently have over 250 properties covering approx. 20 million square feet primarily in office spaces in Europe. They have a well funded balance sheet and good access to capital markets. The current $.80 annual Canadian dividend works out to 5.5% on today's price.

Enbridge (ENB $45.11) is North America's largest oil and gas storage and transportation business. They move oil from Western Canada to Chicago and Eastern Canada and, through their Alliance pipeline ownership, move natural gas from Western Canada to Chicago. At the current price the shares yield 5.75% and sell at a significate discount to where they were just a few years ago. A solid yield for the patient investor with time to wait for the shares to recover.

IBI Group 5.5% Dec 31, 2021 (IBG.DB.D $100). IBI provides design, implementation and other consulting services for urban land development, building facilities and transportation networks. They operate around the world with over half their business in Canada and approx. 30% in the USA. At the current price the yield to maturity on this corporate debenture is 5.5%. In addition, the underlying conversion feature allows you to participate in any upside in the underlying share price above $8.35 over the life of the bond, adding some additional upside potential.

Premium Brands 4.65% April 30, 2025 (PBH.DB.G $102.75). Premium brands were originally called Fletcher Fine Foods but have since sold the processing business and focused on the packaged sandwich markets in Canada and the US. Their solid track record of growth by acquisitions has allowed them solid access to capital markets and has allowed their common stock to be one of the best performers in Canada over the past 5 years. Besides getting a current yield to maturity of around 4.0% 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.

Superior Plus (SPB $12.97) primarily distributes and markets propane and distillates in Canada and the US. In addition, they provide speciality chemicals to the pulp and paper industry. Since their entrance into the US propane distribution business through the CanWest acquisition, they have been adding small tuck in dealer acquisitions at the rate of 5 or 6 per year, adding some growth potential over and above the solid yield. At the current price the yields are currently 5.5% on a conservative 60% payout ratio.

Growth Ideas

TOP PICKS

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

Wildhorse Resource Development Corp (WRD $21.37USD) headquartered in Houston, this independent oil and gas company is focusing on the acquisition, development and exploration in the Eagle Ford Shale in East Texas and near the Terryville Complex in North Louisiana. The stock sells for less than 4X 2019 EBITDA, compared to the industry average closer to 6X, despite having one of the highest debts adjusted growth rates in the industry. A solid combination of growth and value should allow this stock to become a top performer over the next few years.

Alphabet (GOOGL $1239 USD) owns the world's largest search engine and some of the most visited websites on the web including YouTube.com. As a member of the famous FAANG gang, it is a cornerstone of the US technology index currently. They have solid growth rates more than 15%+ per annum, no debt, and one of the cheaper multiples in the FAANG complex at 16X 2019 EBITDA. A reasonable way to play the current technology growth cycle.

Transcontinental (TCL.A $31.93) recently bought US based Coveris Americas which, when combined with their Capri packaging division, will make them the 7th largest package company in North America and 48% of their current revenue. The remaining revenue comes from their legacy slow growth printing division which is why the stock has historically been more of a value paly. With a solid balance sheet, good working capital, and a cheap valuation it looks to have good upside over and above the 2.75 % current yield.

Bank of Nova Scotia (BNS $75.74) Being hurt by big macro themes like the outlooks for emerging markets and a series of recent aggressive acquisitions has lead to this bank being the worst performing bank so far this year in Canada. We think the long-term track record speaks for itself as the current 4.2% dividend allows today's investors to sit and wait while the bank works its way out of the doghouse. We feel it's a rare opportunity to buy a high-quality Canadian bank at a 10% discount from its highs only a few months ago.

Brookfield Business Partners (BBU.UN $56.43) 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.

Pinnacle Renewable Holdings (PL $15.70) is the third largest wood pellets producer in the world. Pellets are used for renewable commercial heating applications such as industrial and residential fuels. They offer wood pellets for global utilities and power generators as fuels to produce base load power. Their current $3.1 billion-dollar backlog of orders makes them 100% sold out to 2021 and 80% sold out until 2026. The company pays a 3.75% dividend based on today's price with some solid underlying growth with new plants being built and added to their current 7 existing plant locations all in Western Canada currently.

Final thoughts..

LNG Update – A Fall Surprise? By Todd Thiessen

Global LNG demand has been rising rapidly over the past year. Prices have firmed up to the $9.60 Btu range from approximately $5.00 a Btu in 2016. The push to rid the world of oil is upon us even if we don't think that will truly happen for decades to come. Natural gas burns much cleaner than oil and is widely viewed to be the next bridge fuel that ultimately will take us to some form of cheap renewable energy.

The resurgence of LNG pricing and, more importantly, the renewed interest and subsequent demand for LNG; has brought some of these projects back to life. Only one of these projects currently ships LNG, but the other 3 have taken on a new life in the past few months.

Tilbury LNG – Operated by Fortis BC – The Tilbury facility has been shipping very small shipments of LNG for the past 8-10 months. Expansion is in the planning stages.

LNG Canada – Owned by Shell Canada, Petrochina, Mitsubishi, KOGAS, Petronas – This $40 Billion project would be the biggest construction project in Canadian history if an FID (Final Investment Decision) is granted in October. LNG Canada is looking for some tariff relief from Ottawa for special steel that must be brought in from Asia to build the plant. They also have a tax relief window from the BC government that is in place until October 18, 2018. National Bank analysts recently returned from Kitimat and they are suggesting that Shell and its ownership group are going to say yes to the FID prior to the October 18 deadline. This plant will be capable of producing 4Bcf a day of LNG and should be completed around 2023. Natural gas will come primarily from the Montney formation in NW Alberta and NE BC.

Kitimat LNG – Owned by Chevron Canada – This project is approximately 2 years behind LNG Canada, but very convincingly looks like it will also be going ahead. Ground and port preparations are happening right now for phase 1. Natural gas feedstock for this plant will come largely from the Fort Liard and Horn River basins in northern BC. This plant will be capable of producing about 2.5Bcf of gas a day upon completion of phase 2 in the mid 2020s.

Golboro LNG – Owned by Pieridae Energy – This is one of the lesser known east coast of Canada LNG projects. Capable of 1.3 Bcf of LNG upon completion, the project is located about 150 kms north of Halifax, NS. The facility already has a 20-year offtake agreement with a German utility. The belief is that this plant could also reach an FID decision by this year end and could also be commercial around 2023.

This tells us that we are very close to some very large construction projects. The LNG Canada facility alone will require up to 10,000 workers to build the plant. The town of Kitimat only has a population of 9,000 people so the Kitimat LNG facility may have to wait for the Shell facility to be partially completed so they can utilize their work force.

Service companies that may benefit from all this activity include drillers, fraccers, camp companies, mud companies, rental companies, transports, and pipe manufacturers. For now, after 7 years of waiting, all we can do is wait and watch to see if the LNG miracle happens.

Don't Forget your House
By Brad Lamash

A common question we get asked is: do I have enough money to retire on? As you know, there is no simple answer when it comes to investing and there are always multiple factors that go into every decision. Clients are nervous as it's a big lifestyle change as they are changing a routine they have done most of their adult life. Each client adapts to this new routine at different rates. From my observation, it takes about 9 -12 months to feel comfortable in this new world of retirement. After this time, a new routine in established and monthly expenses stabilize.

From a financial point of view, clients are worried if they have enough saved. If a couple has a realistic outlook on their retirement plans (i.e. spending) and a reasonable number of investments/pensions saved and no debt, you should be ok.

If something dramatic went wrong, I think people forget to factor their home into their financial equation. For most, this is a large part of their net worth. As much as people would like to live there for as long as possible, a time might come when you would like to downsize to reduce the work load of home ownership or possible need to downsize because of health concerns. If a person was running low on retirement funds, selling your home and downsizing would free up additional retirement money for the later years of retirement.

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Retire First Ltd.
Suite 101 4610 49th Ave
Red Deer, AB
T4N 6M5

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