More Bottom Line

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

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From the Desks Of:
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World Index Report

Annual Compounded Returns as of 01/14/2019

1 year…-5.47% 3 year…1.25%
5 year…7.43% 10 year…9.20%

FX Report *All Prices as of 01/14/2019*

CDN/USD… 0.753 CDN/GBP…0.591
CDN/EUR… 0.656 CDN/AUD…1.046
CDN/MXN…14.34

CIPF
Canadian Investor Protection Fund
MEMBER

Top Picks

- Superior Plus
- CIBC
- Pinnacle Renewable
- Gibson Energy 5.25% July '21 Convertible Debenture
- Go Easy 5.75% July '21 Convertible Debenture
- Aecon 5% Dec '22 Convertible Debenture
- Facebook
- Enerplus Corp
- ProPetro Holdings
- Dundee Precious Metals
- North American Construction Group
- Parkland Fuel Corp.
- HCA Healthcare

IIROC
Investment Industry Regulatory Organization of Canada

Certainty vs Growth By Doug Allan

We entered 2018 with optimism as the fiscal stimulus of the US tax cuts promised higher earnings for all US based companies. While higher US short term interest rates were expected to counter some of this stimulus, it appeared that growth would cause long term interest rates to rise at the same time; keeping the yield curve from inverting for the foreseeable future. Although growth did occur in the US, many economies around the world were facing economic slow downs. Ultimately; the rising US Dollar, trade sanctions, government shut downs, etc. started to take its toll. The big surprise seems to have started in mid November when 10-year US treasury yields unexpectedly fell from 3.2% to 2.6% within 30 days, caused by weak global growth narrowing the yield curve dramatically. The final straw came in mid December when the Federal Reserve indicated that there was no reason to become accommodative any time soon, raising short term interest rates for the 9th time so far to a 10 year high of 2.5%, basically flattening the yield curve. In addition, they signaled that they don't care about lack of global growth, instead reinforcing that they only focus on the USA and we should expect 2 more rate hikes in 2019 and one more in 2020. This indicates that a full inverted yield curve is now dead ahead with a recession usually to follow. This was not what the market was expecting. Investors are sensing a new wariness of risk after stocks in 2018 suffered their biggest yearly loss since 2008.

Despite US economic growth likely to show 2018 as the highest we have seen in over 10 years and unemployment running at record lows, investors redeemed mutual funds at a record pace. December 2018 showed the largest mutual fund redemptions in over 25 years. This was a big factor pushing the S&P 500 in the USA to lose 9% in December alone. December 2018 will go into the history books as the worst December on record since 1931. It's not easy to stand in the face of losses like these and hold hope.

We were as shocked as most at the severity of the December event with every major market around the world showing negative returns. Rumors of over 150 US hedge fund forced liquidations in the US in the month of December alone would indicate a classic climax bottom hopefully might have already been had. However, in the short term nobody really knows for sure. Certainly, each increase in short term rates makes risk-free (certainty) short-term accounts more attractive than the current apparent risk in most of the other financial markets (growth). This means the market may not be able to move significantly higher until it can see a clear path to the end in rising short term interest rates.

Caution seems to be the dominant theme heading into 2019, but history shows that the markets will come back at some point. Every previous record setting market decline in history was proven to be a buying opportunity given enough time. Yet when we are in the middle of a correction phase the future shows us nothing but risk. The good news is the sooner we get this bear market period over with, the sooner we can go back to a growth phase once again.

How Much Cash Should Be In Your Portfolio? By Scott Loucks

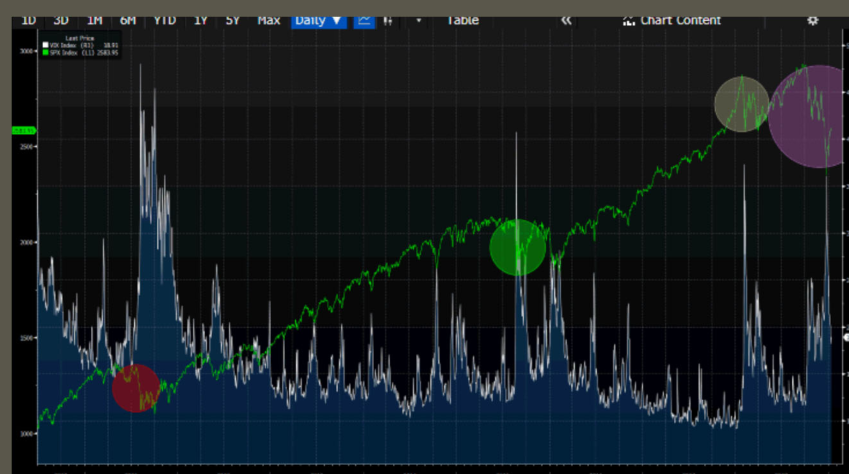
One of the most common questions asked of investment professionals is how much cash should an investor have in their portfolio? Some argue that everyone should have 10%-15% as a rainy day or slush fund in case of emergencies. I would argue that maybe that money should not be in an investment account, but rather a savings account. In the case of a retiree who has $1 million portfolio, does he really need to have $100,000 sitting in cash in case the furnace needs to be replaced or new singles need to be put on the roof?

The easy answer to this is that the number will be different for everyone. Some people are comfortable having their portfolio fully invested when markets are strong to try and take advantage of the up trend and only want cash when the markets look weak. Others like to keep a bit in reserve for a possible "good buying opportunity", regardless of the movement of the market. If these scenarios are comfortable to you then great, that is what you should have in your portfolio for cash. Just remember it is your money and you have to be able to sleep at night knowing that you are ok with where your money is allocated.

Now if you are one of those keep 5% on the side or more for possible opportunities, then I would suggest having the money in a high interest savings account within your portfolio at the very least. This type of vehicle will at least get you some daily compound interest of 1.1% or more in Canada and is available to you in 1 day if you want to jump on that opportunity you have been looking for. Make sure you are comfortable with the amount of cash in your account first, then if you're looking for some return in between investments, or on a go forward basis, contact your advisor and ask them about the options available that make sense for you and your risk level and time horizon for that cash.

Volatility and the Future By Chuck Blackburn

Extreme volatility doesn't come along very often, but to be sure we have seen one of those periods over the last 3 months, lets take a look at the chart. In the chart, the S&P 500 is in green and the volatility index (VIX) is in blue. One correlation you will notice is when the VIX spikes into the 40 range there is a lot going on in the markets and they often plunge. With the first circle, back in 2011, the market fell 17% in 14 days when the VIX spiked to almost 50, with the second circle the market fell 11% in 8 days in the summer of 2015, the third circle had the market falling 10% in 13 days at the beginning of 2018, and of course the most recent crash had the market falling 20% over 81 days. The note to all of this is that once the market bottoms then goes back to retest the lows, it often has a nice run; as it did after the 2011 pullback when it ran +93% over the next 4 years. After the fall in 2015 and retest lows in Jan of 2016 the market ran +55% over the next 2 years, and more recently with the pullback in Feb of 2018 the market then ran +13% over 5 months. Just recently we have seen a 20% sell off; and once the retest of the December lows is completed, we may be in a position for a reasonable run in the markets. Every situation is different, and you must be cognizant that we are in the later stages of a very long bull run that goes back to 2009. So once this next run is done, we may well be in for a prolonged downturn similar to the 2001/2002 pullback of 25% over 2 years. I do believe though we may have one more bounce ahead of us, the question is: how long will the bounce last?



Emotional Check Point By Kate Allan

Emotions play a large part in investing in both good and bad times, and often leads to feelings of greed or fear; which results in buying high and selling low. Traditionally, investors shielded themselves from emotional trading by hiring professionals to research investment ideas on the basis that the more you know about a company, the less likely you were to react during a market decline. One would believe that with information more readily available than ever before that we would have the most rational market to date, but the reality is that only 10% of trades are being driven by real investors trading on corporate fundamentals.

So what is driving the buys and sells of the other 90%? These traders are active hedge funds, algorithmic and high frequency traders and ETFs; all who have a large impact on short term pricing and volatility. These traders seek to affect or gain from share price volatility. They make their moves at any point of change or information and particularly like doing some in a thinned-out trading environment like Christmas holidays, noted by this year's holiday volatility. ETFs are a little bit different and adhere to fixed weighting in their portfolios. If the market is on a run up or down, they add significantly to the short-term volatility. We are currently living through the first correction of the ETF era.

You might wonder why this is important to your investments. In today's market, time frames are now very short, and it is causing a highly volatile and emotional market. In the short term, markets are ruled by irrational emotions such as fear and greed, but in the long term fundamentals still rule the market. Remember, you don't need all your money today and in the long run trading on fundamentals, not emotions, will create long term gains.

Income Ideas

Yield at a Reasonable Price (YARP) All Prices as of 01/14/2019

Growth Ideas

TOP PICKS

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

Gibson Energy 5.25% July 15, 2021 Convertible Debentures. Providing midstream energy infrastructure and logistic services across North America, Gibson has 12 million barrels of storage capacity a network to move, blend and market products. Priced at $103.50 to yield 3.75% to maturity, they are convertible at $21.65 anytime over the life of the debenture. This solid infrastructure play offers a good way to play the oil market.

Go Easy 5.75% July 31, 2022 Convertible Debentures. A leader in alternative financial services, GoEasy offers lending to non prime customers and easyhome offers lease to own services for furnishing and appliances. Priced at $104.50 they yield around 4.5% to maturity and have a conversion feature that allows you to covert into the underlying stock at $44 anytime over the life of the bond.

Aecon 5% Dec 31, 2023 Convertible Debenture. Aecon is a leading Canadian construction and infrastructure development firm offering project financing, design, materials, engineering, procurement, construction and fabrication services. Priced at $103 to yield around 4.4% to maturity with a conversion feature that allows you to covert into the underlying common at $24 anytime over the life of the bond.

Superior Plus Corp (SPB $10.50) distributes and markets propane in both Canada and the US as well as supplies sodium chlorate, chlor-alkali, potassium and sodium chlorite in North America and internationally. The company completed 6 acquisitions in 2018 with a goal to complete 5-10 tuck-in acquisitions per year. At the current price the shares are yielding 6.8% with an estimated pay out ratio of 60%.

Canadian Imperial Bank (CM $106.21) provides retail banking, wealth management and investment banking product solutions in Canada and the US as well as retail and wealth management operations in the Caribbean. Serving over 11 million clients, CIBC has strong margins and internal expense discipline; which will help continue to support good EPS growth throughout 2019. With a 5% dividend at the current stock price, it provides a good opportunity to boost your income with a reputable company.

Pinnacle Renewable Energy (PL $12.10) is a world leading manufacturer of industrial wood pellets, used by large scale thermal power generators. They own and operate 8 facilities in Western Canada and 1 in the US, all strategically located for efficient transportation to their port terminal. The company has long term take or pay contracts with utility providers in the UK, Europe and Asia. At the current price, the company has a solid 5% dividend.

Facebook (FB $145.39 US) with over 1.2 billion active monthly users; FB is the leading destination for sharing photos, videos and information. Putting privacy headlines behind them, FB is ready for a solid 2019 after recent product changes have increased user engagement and monetization, setting a track for strong EPS growth.

Enerplus Corp (ERF $11.99) is a developer of oil and natural gas with assets in the US and limited exposure to Western Canada. Their assets include operations in the Bakken/Three Forks play in ND, the Marcellus shall gas region - the most economic dry gas play in the US. With a 46%/54% Natural Gas and Liquids production mix, the company strives to help mitigate the risk with any one commodity while providing access to some of the best plays in North America.

ProPetro Holdings (PUMP $14.80 USD) A Texas growth oriented hydrolic frac company that recently completed acquiring pressure pumping outfit Pioneer Natural Resources. This transformational acquisition creates the largest pressure pumper in the Permian Basin without adding any new fleets to the market. They now have 28 fracing fleets with 1,415,000 HHP and a best in class maintenance facility.

Dundee Precious Metals (DPM $3.57) is a Canadian gold mining company that explores, develops, mines and processes precious metals in Bulgaria; a smelter in Namibia; and is currently doing exploration in Armenia, Bulgaria, and Serbia. Their Chelopech mine in Bulgaria beat gold production expectations in 2018, and with the Krumovgrad open pit gold mine set to open Q1/19, DPM's annual production is expected to rise to 200,000oz/year. Timing couldn't be better with recent strength in gold prices.

HCA Holdings (HCA $129.26USD) is the largest hospital operator in the USA; providing services through a network of acute care hospitals, outpatient and behavioral facilities, clinics and other care settings. The company provides services in 20 US states and in the UK through 178 hospitals and 119 freestanding surgical centers. Providing 5% of all US hospital services through 249,000 employees makes this company a solid play during a market correction.

Parkland Fuel Company (PKI $35.91) operates retail and wholesale fuel and convenience store brands under brands like Fasgas, Racetrac, Esso, and Chevron, for example, across Canada and the US. The company had a busy year integrating recent acquisitions, positioning them selves as a key consolidator of North American downstream fuel assets. A solid buy with a 3.3% yield at the current price.

North American Construction Group (NOA $13.53) is the premier provider of heavy construction and mining services in Canada. With the largest independent fleet, featuring some of the largest machines available, they can respond quickly to changing client requirements. Management has closed on two transformative acquisitions, supplemented those assets with $1bln in awards and add 31 new haul trucks to their fleet, creating a strong play on production.

Final thoughts..

What a Difference a Year Makes by Todd Thiessen

A convertible debenture is an interest paying debt obligation with the safety characteristic of a fixed term at a fixed rate. In addition, the conversion feature allows the holder the option of converting the debenture into a pre-specified number of shares of the common stock of the issuing company at a pre-determined price. This type of investment can be attractive because it provides the opportunity to participate in share price increases of the underlying stock but also offers the downside protection normally found in a fixed income investment. At the maturity of the convertible debenture, the issuer must give the investor their $100 per unit back (capital preservation) with full interest assuming the issuer is solvent.

Debentures are typically priced at $100 per unit and sold in $1000 multiples. The full original $100 must be returned at maturity, while paying interest along the way usually semi-annually. However; if the underlying share was to do very well, the unit price of the debenture could also appreciate. In other words, if the common shares have potential, so too should their convertible debenture. If the common shares pass the conversion price, the investor can either sell the debenture for a profit if they are exchange listed or they can convert the debenture into the common shares at the contractually agreed upon conversion price and then sell the shares on the open market for a profit.

Debentures can be varied, and diversification can be achieved by issuer, by industry/sector, currency and maturity. Currently there are about 130 convertible debentures listed on Canadian stock exchanges either in CDN dollars or US dollars. Convertible debentures are not without risk. The company needs to be solvent and needs to be able to make the interest payments. Buying a few different companies in a basket approach lowers your individual solvency risk. They can also be somewhat illiquid and may like many corporate bonds have wide spreads between the bid and the offer. Also, most of the 130 debentures listed currently tend to be small to mid cap issuers which means they likely don't have credit ratings. That said, if you do your homework you will find a diversified portfolio approach to a basket of convertible debentures can offer a good alternative to many other fixed income vehicles. They generally pay out higher interest rates than a typical GIC and do offer upside if the underlying company does well.

Valuable Information for 2019 By Brad Lamash

We receive a lot of question regarding contributions room, government programs, and how tax rates will affect you during 2019. While your personal history will affect some of these figures, this is a good reference guide to help plan your financial year.

2019 TFSA Contribution Limit: $6000
2019 max RRSP dollar limit: $26,500 or 18% of earned income (which ever is less)

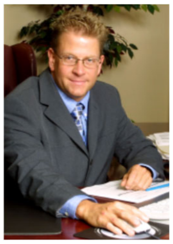
Last day to contribute for 2018: March 1st, 2019

OAS (until 03/19): $601.45; $7,217.40 annually; max income to receive OAS $125,696
CPP retirement pension average (as of 10/2018) $644.41/$7972.92 annually

New for 2019:
CPP contribution limit rate has increased to 5.1% (from 4.95%)

Income Tax:
Basic Personal Amount (Federal): $12,069

Federal Tax Brackets:
15%; up to $47,629
20.5%: $47,630 - $95,258;
26%: $95,259 - $147,666;
29%: $147,667 - $210,370;
33%: $210,271 +



Economic:
Interest Rate (1/9/19) 1.75%
Prime (1/9/19) 3.95%
Inflation (11/18) 1.7%

The stock market is a device for transferring money from the impatient to the patient– Warren Buffet

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