

# More Bottom Line

... An Investment Update from the Retire First™ 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 08/30/2019

1 year... 0.17%      3 year... 8%  
5 year... 8.42%      10 year... 9.07%



## FX Report All Prices as of 08/30/2019

CDN/USD...0.7502    CDN/GBP...0.6218  
CDN/EUR...0.6841    0CDN/AUD...1.109  
CDN/MXN...15.0925

# CIPF

Canadian Investor Protection Fund

## MEMBER

## Top Picks

- ◇ Boralex
- ◇ Capital Power
- ◇ CIBC
- ◇ Emera
- ◇ Fiera Capital
- ◇ Sangoma
- ◇ Alaris Royal Corp Debenture
- ◇ Tidewater Midstream Debenture
- ◇ Exchange Income Debenture
- ◇ Capital Power Preferred
- ◇ Keyera Corp Bond
- ◇ North American Construction Group Debenture



## Being Comfortable In Uncomfortable Times By Doug Allan

The big story over the past 3 months has been the global decline in long term interest rates. 10-year US Treasury Bonds have declined from 2.5% in May to below 1.5% currently. This dramatic decline is not just in the USA as interest rates are plunging around the world. As Europe joins Japan in the negative long-term interest rate arena, it is said that 1/3 of all the government bonds in the world now have negative yields. Many are now asking if it's possible for negative rates to come to North America.

As Global GDP slumps, just about every central bank on the planet except Canada has lowered short term interest rates this year. You would think this would be a good thing for investment values in general; however, the reality is that interest rates are dropping around the world for a reason and it's not good.

This summer we saw the meltdown of one of Europe's largest banks as Deutsche Bank laid off 20,000 employees. Their derivative exposure is one of the largest in the world and their shareholders' equity is thin, making Wall Street nervous. In addition, we watched 3 of the top 10 Chinese banks get nationalized over the summer as that country tries to contain the fallout from their slowing economy. Their real estate bubble looks likely to bust as the trade war uncertainty does not seem likely to end anytime soon. It looks now like the Chinese will try to save face and hope for a new president in 2020 who might be easier to get along with.

The reality though is this US/China dispute has gone much further than just trade. Even with a new President, business with US and China may never go back to the way it was. In the meantime, as if on cue, the Chinese currency is conveniently plummeting. We are hopeful the Chinese Communist government will be able to contain their recession in a manner that won't allow their credit defaults to spread to the rest of the planet.

The US Federal Reserve flip flop on interest rates earlier this year was a complete disaster, telling us at Christmas to expect three rate increases in 2019 only to see rates in fact go lower a few months later. Add into the mix a world that seems captivated by every word the US President tweets and a media that's hell bent on destroying him at any cost and it's not hard to see why investors have high anxiety.

To add to the confusion currently, we are witnessing wide stock valuation divergencies. Growth companies like technology are stretched to their limits, while commodity stock valuations like energy and materials are hitting new lows daily. In this environment, high yielding common stocks or good quality corporate fixed income likely offer some peace of mind in an uncertain environment.

Despite all these obvious negative signs, the US consumer confidence currently stands at a 19-year high. That reminds me of one of the old investment proverbs "when all the experts and forecasters agree – something else is likely going to happen."

## Why is Brexit Such a Big Deal? by Todd Thiessen

In the summer of 2016, the British voted to leave the European Union. The importance of their exit from the EU cannot be overstated as it will affect other countries and Europe for decades to come. The UN and the globalists were dealt a blow on the decision. All kinds of warnings of doom and gloom followed, including businesses leaving England and general global chaos. None of which has happened to date. It seems the Brits had simply had enough of the unelected officials in Belgium telling them what to do. For a country that has ruled the world several times in its past, waning influence in world affairs was unacceptable.

What the stock markets really do not like is uncertainty. The Brexit deal delivers on uncertainty to a whole new level as no country has tried to leave the EU since its inception. Some worry that if the British are successful, more countries like Italy could follow; creating more uncertainty. Who will be next?

Some are predicting that the UK, due to pent up demand, could lead the G7 economies in 2020 in growth. Will the pound sterling appreciate or depreciate? What kind of trade deals will the UK be able to secure post Brexit? All great questions with no definitive answers today.

Brexit could be a shining global example for other unhappy governments to take their people in a different direction. People will go on with their daily lives heating their homes, buying groceries, and going to the movies no matter how this divorce from the EU fares. Leaving the EU will cause chaos for British goods as tariffs may kick in, goods may be checked at ports of entry into other countries, passports need to be reissued, and supply routes could be curtailed or disrupted; which, all in all, could do damage to the UK economy. There are a lot of moving parts with Brexit and we expect it will dominate the news as the Oct 31, 2019 deadline approaches. My bet is the Brit's will endure over time as they have always done in the past. Perhaps this event will create a great buying opportunity for a great country.



## Cryptocurrency by Scott Loucks

Mark Zuckerberg, the founder of the internet phenom Facebook, is now trying to get into the ever-expanding cryptocurrency market. Facebook's new endeavor will be just one more internet-based currency in the suite available around the world, which has now crested 1600 as of the end of 2018. The proposed currency, Libra, and virtual wallet called Calibra is in the infantile stages; but it is already putting a fright into the US government and governments around the world. Facebook has already engaged 27 other companies to help in the formation of the mega crypto currency spanning payment services like PayPal, Visa, Spotify, and Uber. With a proposed launch date of early 2020, they are targeting over 100 companies total to join the Libra Association.

So why is this so frightening to governments around the world when there are already so many other virtual currencies already out there? A primary concern is no insurance on cryptocurrencies like in traditional banks and investment firms for money on deposit in an individual's account. With over \$1Billion worth of cryptocurrency being stolen by hackers in the first 3 quarters of 2018, having no insurance on this money is a frightening proposition.

An even bigger problem with Facebook getting into this business is their size and current user base which is estimated to be over a quarter of the world's population. They would be able to dictate policy and control the flow of money like the world has never seen before, basically becoming the treasury for the world. This would leave the IMF (International Monetary Fund) on the outside looking in as Mark Zuckerberg dictated how the money would and could move and at what rates and could cripple economies around the world in days. No longer would there be a governing body of 189 countries, but one individual at the top of the corporation who had absolute control.

Sounds scary, but it is not that farfetched if it is allowed to move forward as it would get too big too fast to fail and possibly take major monetary policy away from international governments and put it into a single corporation's hands.



## What is Happening to Oil?

Geopolitical events can have a big impact on oil prices, but anyone looking to invest in the oil sector would be wise to look beyond these headline-grabbing (but temporary) impacts and consider what's likely to affect the companies in the longer term.

One of the key factors that impacts oil prices, in good times and bad, is the interplay between supply and demand: how much oil is being produced to fulfil the needs of the market. The energy sector is not very well-loved in an environment where the yield curves are inverting and the economic outlook is recessionary.

In Canada we have the additional headache in the lack of pipeline infrastructure and uncertainty around what, if any, proposed pipelines will be built, means foreign companies are leaving and taking their capital with them.

The negative sentiment doesn't mean investors should stay out of the sector altogether. If you've done your research and can stomach the volatility, this type of climate can create buying opportunities as you are able to get oil stocks at a discount.

On a more macroeconomic level, interest rate cuts by the U.S. Federal Reserve are helpful for oil prices, as is a resolution to ongoing conflicts such as the trade war between the U.S. and China. In Canada, a shift in government policy that signals the country supports oil and gas development would be key.



# Income Ideas

*Yield at a Reasonable Price (YARP)* All Prices as of 08/30/2019

**Capital Power Preferred (CPX.PR.K 25.04 5.75% until June 30th, 2024 then reset at 4.15% plus the 5 year Canada Bond yield)** Capital Power is an independent power producer based in Edmonton, Alberta that has interests in 17 facilities across North America, generating more than 3200 MW of power. Alberta's recent announcement to maintain the 'energy only market' increases Capital Powers growth potential; combined with an improving cash flow, makes this a solid yield play.

**Keyera Corp. Bond (6.875% \$103 June 30, 2079 callable on June 13th, 2029).** Keyera is one of the largest midstream companies in Canada specializing in NGL gathering, processing, storage and marketing. They also provide diluent logistics services for oil sand customers and own an industry leading condensate system that is operated in Fort Saskatchewan.

**Tidewater Midstream (TWM.DB \$98.25 5.0% Sept 30th, 2024 )** headquartered in Calgary, Tidewater is a midstream energy company that is dedicated to the purchase, sale and transportation of NGL throughout North America as well as the export of NGL overseas. The company recently completed their Pioneer Pipeline and their Pioneer Plant Phase 1 is on track for commission in September. The debenture is convertible at \$1.86, giving you the opportunity to participate in the stock's gain.

**North American Construction Group (NOA.DB.A \$100 5% March 31, 2026)** is a 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 1 billion in awards, and added 31 new haul trucks to their fleet; creating a strong play on production. The debenture is convertible at \$26.25, giving you the ability to participate in the stock's gain.

**Alaris Royalty Corp (AD.DB \$95.75 5.5% June 30, 2024 )** Headquartered in Calgary, Alaris provides private companies financing in a range of diverse industries including healthcare, aerospace, home retailing, steel, mining, business services, and fitness. The debenture is convertible at \$24.25, giving you the chance to participate in the stock appreciation.

**Exchange Income (EIF.DB.K \$100.24 5.75% Mar 31st, 2026)** is a diversified, acquisition-oriented corporation focused on opportunities in aerospace and aviation services and equipment and manufacturing. The business plan of the company is to invest in profitable, well-established companies with strong cash flows operating in niche markets. Convertible at \$49.

# Growth Ideas

For more ideas visit our Top 20 at [www.retirefirst.com](http://www.retirefirst.com)

**Capital Power (CPX \$30.53)** is an independent power producer based in Edmonton, Alberta that has interests in 17 facilities across North America generating more than 3200 MW of power. Alberta's recent announcement to maintain the 'energy only market' increases Capital Powers growth potential; combined with an improving cash flow, and a 6% dividend at the current price makes this an intriguing story.

**CIBC (CM \$103.13)** is a leading North American bank with over 10 million personal banking and business clients. They offer a full range of services through their banks, e-banking network, and offices; employing over 43,000. Their US Commercial Banking continues to drive above average growth, helping them beat the street expectations for EPS for Q3/19. With the recent dividend increase, CIBC now yields 5.6%.

**Boralex (BLX \$20.68)** is recognized for their solid experience in operating renewable wind-power, hydroelectric, thermal, and solar in the UK, France, Canada, and the US for over 30 years. The company continues to grow and diversify their projects and has recently added expansion plans for a 17MW wind project in addition to the 118 MW plans currently under review in France. For those who love a dividend, Boralex pays 3.18% at the current price.

**Emera (EMA \$57.68)** is an energy holding company with investments in electricity transmission, distribution, generation and transmission and energy marketing throughout Nova Scotia, New Brunswick, several US States, and the Caribbean. They also have interest in two gas pipelines in Atlantic Canada. The company recently sold some assets which have helped them shore up their balance sheet and fund the capital plan for 19-21. The company has a 4% dividend at the current price.

**Fiera (FSZ \$9.98)** is the third largest publicly traded independent asset manager in Canada and the 9th largest by assets under management. The company has been busy growing through both organic growth and acquisitions including 2 acquisitions and 1 strategic partnership in 2019 so far. With a 8.3% dividend at the current price, Fiera is one to watch.

**Sangoma (STC \$1.48)** is an Ontario based comprehensive Unified Communication (UC) solution for service providers, carriers, small to medium business and original equipment manufacturers. Their products are sold to millions of customer through 150 countries that use their affordable cloud based and on premise UC systems. They are also the primary developer of the Asterisk project, the world's most widely used open sourced software and FreePBX, the world's most widely used open sourced PBX software.

# Final thoughts..



## The Inconvenient Truth of Climate Change By Chuck Blackburn



There has been 20 years of increasing conversation surrounding global warming, climate change, carbon tax and how man will destroy the planet. The frustrating point is, that at no point in many of these accusations, does actual fact come into the conversation. One of the largest myths is that wind turbines, solar panels and battery charged cars are the ultimate solution to the damage that has been caused by the industrial revolution and the evil oil and gas industry. Nobody in the 'green camp' discusses that these are all made with non-renewable materials; proponents would have you believe these all create instant renewable energy forever.

What they don't want you to know is that one wind turbine requires 900 tonnes of steel, 2,500 tonnes of concrete, and 45 tonnes of non recyclable plastics and rare earth metals; this all equates to over 3,000 tonnes of co2 emissions, it will take this wind turbine a long time to save 3,000 tonnes of co2 emissions. The 'green camp' would have you believe the cost of this turbine will break even in 6 months, but I have also seen credible studies that insist these 20 yr life turbines will break even about year 25. Just imagine the cost if you build an entire wind farm with 25-200 turbines, this would approach 300,000 tonnes of co2 just to build them. Germany has built 30,000 wind turbines and their coal usage and co2 emissions continue to climb each year, you have to remember that it takes ½ tonne of coal to make 1 tonne of steel; just building these turbines sends the coal usage through the roof! This does not count the thousands of birds and bats that are chopped up each year, the thousands of acres needed to construct these farms and the tens of thousands of feet required for cable to tie these farms in from their location in the country into the cities or towns where the electricity will be used. Also forgot in the message is that these turbines turn 30% of the time and need to be 100% backed up by non-renewable resources in case the wind does not blow for 2 or 3 days. From 2011-2017 the cost of solar panels has decreased by 75% but the cost of electricity has increased 5-fold in California; these do not decrease the carbon footprint at all and are at best unreliable. Some of the brightest minds all say we would be better off using our time, resources and money on nuclear fusion, fission as it is very clean, engineerable and reliable. In the last 140 years the temperature on the planet has increased by 0.8C, and 3% of all the carbon dioxide in the atmosphere comes from man made machines; there is never anything wrong with improving things or becoming more efficient but to completely disregard fact for political gain is insane! Under Obama's reign as president 19 of the 34 clean energy companies supported by the government via grants went bankrupt to the cost of 10's of billions of dollars.

Hopefully at some point in the future, somebody with clout will step up and throw the idea out there that maybe we should actually look at the facts, when coming up with a solution!!!

## Stock Buybacks vs Dividends by Brad Lamash

Stock buybacks can be an attractive option in capital allocation decisions within businesses. Buybacks on the TSE in 2019 are currently the highest on record. There are several factors as to why this may be occurring.

The low return on cash (and the cost of debt) improves the economics of buybacks. Also, the lack of strong growth opportunities and the uncertainty regarding trade and government policy make the major capital investment plans riskier. This skews the argument in favor of buybacks.

Other pros for buybacks include the following: they play an important role in returning money to shareholders, provide better stability for share prices if used counter-cyclically, allow shareholders to defer tax payments until shares are sold, and they provide an alternative use for excess capital within the company.

The cons are: buybacks sometimes starve the companies of reinvestment, result in lower liquidity for shareholders, the low current interest rates make buybacks additive to current year's earnings per share; which may cause management to be short sighted, and finally buybacks reward those who sell their shares rather than the long term holder.

Academic literature suggests that there should be no difference on share price if the company decides to spend the money on a buyback or pay a dividend.

I would say it appears that buybacks allow corporations more flexibility vs committing to a long-term dividend program.



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

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