

## Issue #41 – 2016 Year in Review

**T**errorist attacks in the City of Love, the willful downing of the GermanWings flight, mass migration from Syria and Iraq, and perhaps most terrifying of all, Donald Trump leading the polls in the US election. It was a frightful year of international news headlines. Canadians can be forgiven for preferring the comforts of home, although their portfolios would have fared much better if they had ventured out of the country thanks in large part to the significant drop in the loonie.

Indeed, on the last trading day of the year, the \$CAD had shed 16% of its value against the \$USD to close out a difficult 2015, the second worst year on record<sup>1</sup>. Weak manufacturing numbers, stagnant interest rates, and reduced demand for commodities and oil all contributed to the weakness. The price of a barrel of oil dropped 30%, while gold bullion fell 10.5% to \$1060 an ounce. Naturally the Toronto Stock Exchange Index, which features many commodity producers, took the brunt of the blow dropping 11% for the year, and 16% from its peak on April 15th when it reached 15,524.

The US stock markets were a bit more varied. Tech stocks produced excellent returns as they profited from valuations not seen since the dot-com bubble. This trend propelled the NASDAQ to +5.7% for the year, the only American index to finish in the green. The more diversified Dow Jones and the NYSE finished the year at -2.2% and -6.3% respectively.

International markets were a mixed bag with serious market movement in China that included a 16% jump in April alone before tumbling to finish the year down 8%. The Chinese government's failed attempt to slow-down the market route added further uncertainty which will likely become evident on January 8th when large-scale investors in China can once again sell stock. The rest of emerging markets suffered a hard fall to start 2015, although the drop in their currency greatly sheltered the exposure for Canadians.

A hop and skip across the hotly contested islands of the East China Sea, Abenomics helped propel the Japanese markets to the top of the return charts producing 9.1% growth for investors. Similarly, the Germans and French bucked the trend in Europe. The DAX closed the year up 9.6% and the CAC up 9% with all of the growth occurring in the first three months of the year.

All in all, with so many markets finishing in the year in the negatives it was not a great year for investors. For Canadians who held money outside of Canada and did not hedge the Canadian dollar, there were nice gains to be had. Fortunately for our clients, a good portion of our portfolio was dedicated to precisely that allocation.

### *Our Performance*

In large part, we expected 2015 to be a volatile year and our portfolio was positioned very well to absorb the drop in the markets and to profit from the falling loonie. With almost 15% of our portfolio in a high interest savings account with B2B Bank, we benefitted from having that money out of the Canadian markets, especially as a volatility dampener for our risk adverse clients.

Although we did not expect the Canadian dollar to fall so quickly, our target portfolio's overweight exposure to international stocks (40%) benefitted greatly from the falling loonie. Regrettably, CI's Signature High Income & Diversified Yield Funds kept a currency hedge on the dollar and did not benefit from the currency movement in favour of a lower risk profile. Furthermore, our exposure to emerging markets proved somewhat premature despite generating positive returns for the holding period.

Overall, we look back on 2015 with pride at having defended our clients' portfolios in a difficult year of falling markets while generating positive returns for the majority of clients.

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### *Innova Wealth Builders*

It was another solid year for growth and referrals thanks to our clients' generosity and enthusiasm in helping us grow. Of the 35 referrals we received in 2015, our tighter requirements for new clients meant that only 8 of those contacts were taking on as full-service clients. We continue to favour calculated growth by focusing on clients of considerable economic potential rather than spread ourselves too thin. This strategy continues to be successful as despite the relatively small number of new clients, our total assets under management grew in excess of 15%. In line with the commitment to put our clients' interests first, we transitioned our core business away from commissions, with all new business going to service-fee only. We hope to have everyone free of hold periods by 2020 as we continue to maximize free-units for our clients.

This was truly a transitional year for Innova Wealth, most notably with Cedric Carrière joining his family's business. Our intensive interviewing process yielded excellent results with the hiring of Kelly Dussiaume in our Sudbury office to replace him. Kelly caught on quickly despite the steep learning curve and now handles most of the client transactions for the firm. With processing coming off her plate, Tanya is hard at work leading our Business Development initiatives. From organizing client events to servicing our group plans, Tanya is making the transition from the back office to client facing where she brings almost twenty years of experience.

2015 will be remembered as a year of achievement for INWB. Tanya completed her mortgage agent's course. We are now primed to help our clients benefit from mortgage rate sales and put pressure on their banks to match the best rates on the street! Kelly completed the first of several bookkeeping and tax courses on her plate. MyCFO, our new bookkeeping and cash flow planning service for professionals is currently in beta-testing. On his end, J-F completed three additional courses on his way to earning the Chartered Investment Manager (CIM) designation which he hopes to complete in 2016.

### *Looking forward to 2016*

Off to a rough start, 2016 will likely be another turbulent year on the financial markets. With this in mind, we continue to favour cash in our tactical asset allocation strategy as we wait for an opportunity to buy that has yet to fully present itself.

Although the markets are depressed, we have not yet seen the irrational fear seep into the markets that generates great value buys. In fact, some sectors are beginning to look like bubbles with valuations that have lost touch with reality, particularly in the high-yield bond and technology sectors in the United States. For these reasons, we remain cautious in our portfolio allocations, yet are ready to pounce should the opportunity to buy present itself.

Within our own borders, we foresee further declines in the \$CAD due to continued selling pressure on oil and gas and other commodities.

The manufacturing and infrastructure slowdown in China will dampen demand on the latter while the easing of sanctions on Iran, the seventh largest producer of petroleum products, will lessen the odds of a recovery for the former. Sustained low prices in these two commodities will inevitably lead to a reduction in extraction activities in Canada.

We have not yet seen the drastic cuts as of yet due in large part to the Canadian dollar's decline. It lessened the cost of production which is priced in \$CAD while the underlying product is still sold in \$USD.

We are concerned however that as previously established pricing contracts begin to expire, even with a continued drop in the \$CAD, junior mining and oil and gas companies simply will not have pockets deep enough to keep the taps on.

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In Ontario, there is much hope that the drop in the loonie will lead to a manufacturing and export-led recovery. The Mexican peso has fallen just as quickly as our dollar, so the cost of manufacturing there remains more attractive than what our fair province can offer, particularly in labour intensive industries.

We feel that Ontario still has a lot of work to do with infrastructure before companies will be willing to establish new production facilities here, particularly in lowering the cost of energy, expediting shipping lanes to the US, and reducing corporate tax rates. Given the level of deficit presently on the books, we do not see this happening any time soon.

For this reason, we continue to look for value outside our borders and offset the risk by holding cash and short-duration bonds to mitigate interest rate risk. We believe that the US recovery will continue to crawl along leading to modest increases in interest rates there, while a rate cut in Canada is still on the table.

Regardless of what the markets bring, we will be there to ensure that you and your portfolio react appropriately to help you reach your long term goals!

All the best in 2016,  
J-F & the INWB Team

1. CBC.ca :
2. Market Data Provided by TD Bank's "Weekly Market Report" PDF and [www.Bloomberg.com/markets](http://www.Bloomberg.com/markets)

### Performance figures of major allocations as at Dec 31st, 2015

### Individual Accounts

Fund Name	Category	Risk Level	2015	2014	1-Month	3-Month	6-Month	3-Year	5-Year	10-Year	Inception
<a href="#">TD Income Advantage</a>	Cdn Bond	Low-Medium	<b>+0.08%</b>	6.86%	0.00%	0.35%	-0.72%	3.23%	3.74%	3.80%	4.32%
<a href="#">CI Signature High Income/Diver. Yield</a>	Diversified	Low-Medium	<b>-0.95%</b>	8.57%	0.14%	1.21%	-3.38%	5.32%	6.44%	5.61%	9.05%
<a href="#">CI Global Leaders Balanced</a>	Global Balanced	Medium	<b>+13.18%</b>	2.68%	1.23%	4.03%	0.67%	13.38%	9.98%	No data	5.89%
<a href="#">TD Global Low Volatility</a>	Global Balanced	Medium	<b>+12.65%</b>	14.01%	1.67%	6.44%	5.20%	16.97%	No data	No data	14.74%
<a href="#">CI Select Income Fund</a>	Cdn Bond	Low	<b>+1.78%</b>	5.86%	-0.14%	0.47%	-0.49%	3.91%	4.30%	No data	3.78%
<a href="#">CI Cambridge Cdn Asset Allocation</a>	Cdn Balanced	Low-Medium	<b>+4.09%</b>	10.25%	-1.42%	1.39%	0.14%	10.82%	6.94%	No data	5.69%
<a href="#">Edgepoint Global Growth &amp; Income</a>	Global Growth	Medium-High	<b>+9.01%</b>	13.91%	-1.84%	2.43%	-1.93%	18.02%	12.28%	No data	14.43%
<a href="#">Dynamic Premium Yield</a>	Cdn Bond	Low	<b>+7.04%</b>	15.18%	-0.58%	0.32%	0.71%	No data	No data	No data	10.82%

### Group Plans

Fund Name	Category	Risk Level	2015	2014	1-Month	3-Month	6-Month	3-Year	5-Year	10-Year	Inception
<a href="#">DynamicEdge Balanced</a>	Global Balanced	Low-Medium	<b>6.18%</b>	6.19%	0.47%	2.98%	-0.04%	8.40%	5.38%	No data	4.96%
<a href="#">Mackenzie Symmetry Balanced</a>	Global Balanced	Low-Medium	<b>3.55%</b>	6.92%	-0.31%	2.70%	0.39%	7.38%	5.72%	No data	7.88%

All performance is net of all management fees (After). Source: Morningstar.ca

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