The Dream Achiever

DD HUMES

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INSIDE THIS ISSUE

"Price is what you pay. Value is what you get."
~ Benjamin Graham

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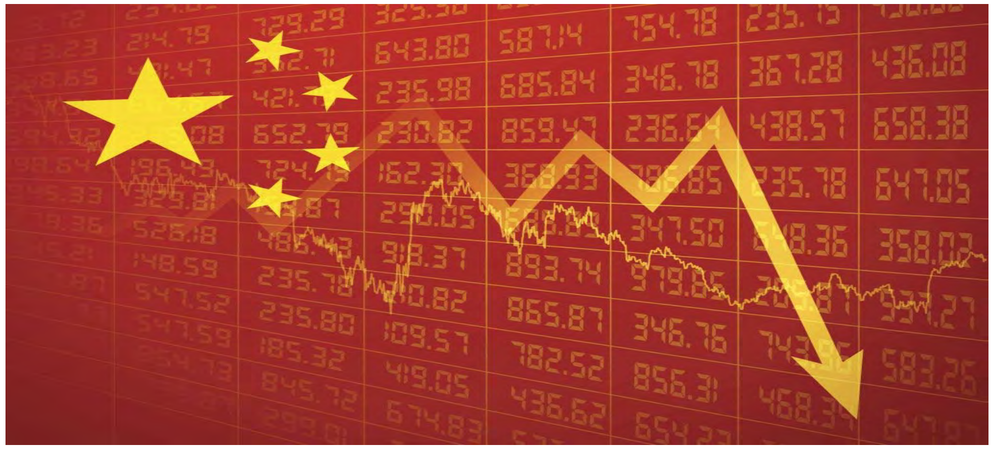

The Great Fall of China

September always seems to slap us back into reality. The summer months come to an end, the kids go back to school, and there is noticeably more traffic on the roads. The good news is that the latter half of the summer and all of the month of September has delivered some beautiful weather here in Montreal. The worldwide stock markets have definitely seen more stormy times over that period.

In Q3 2015 the worldwide markets had a significant pullback and a spike in volatility that provided us with choppy waters. The Canadian TSX composite finished the quarter down -7.86% (-7.02% YTD), the American S&P 500 down -6.44% (-5.29% YTD), MSCI World down -8.45% (-6.04% YTD), and FTSE TMX Can Universal Bond up 0.15% (2.52% YTD). In the June newsletter we mentioned that we felt there was continued downward pressure on the Canadian dollar that had recently been rallying. As predicted, the Bank of Canada again cut interest rates and low oil prices continued. This resulted in the dollar dropping 6.85% vs. the $USD in the quarter and now sits 14.86% lower than it had at the beginning of 2015. Even with this large drop in value, we still feel that there is much more pressure on the dollar continuing to drop rather than rise. With that said, we doubt that it will continue to slide at this current pace. We see oil and the Canadian dollar being low for a while but there are variables that could change that outlook.*

When we signed out of our last newsletter, which concentrated mostly on the Greek debt situation occupying the front pages of the newspaper, we mentioned that there were things going on in China that were concerning us but not yet getting much attention. Since then, the situation has merited front page headlines such as “Chinese stock market down almost 40% since mid-June from leveraging bubble”. The good news is that our most of our money managers were not only positioned for a Chinese pullback but also for the negative effects this would have on commodity producing nations like Canada.

The big news of the quarter affecting the markets was the devaluation of the Chinese currency vs. the US Dollar. This was taken as a double threat to the markets; a signal that the Chinese economic growth is much poorer than previously indicated and the beginning of a currency war that also pulled other Emerging Market currencies lower in anticipation of similar central bank moves from other countries. Commodity prices reflected this fear as well with oil falling back to the $40/barrel level as the still surging oil production was met with the prospects of falling demand.

There have been multiple theories of why China did what it did. One is that they are trying to stoke economic growth by increasing their cost competitiveness within the global market. This is inconsistent with their long term objective shifting away from a dependency of economic growth based purely on exports and infrastructure investment toward a more sustainable and less cyclical base of increased consumer consumption and private investment. Another theory is that they unpegged the Yuan from the US dollar to become a free floating currency as this is one criterion for promoting it as a reserve currency.

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Market Overview Continued

In the not too distant past the feeling was that rates would be on the rise. We now believe that rates should stay in a low band for some time. The US is pretty much the only economy talking about a rate hike. On September 17 the US Federal Reserve held steady on rates when almost everyone had seen them as raising rates for the first time in 11 years. Janet Yellen stated that the developments in the global economy had forced the central banks hand. The Fed still maintains a bias toward a rate hike sometime this year while lowering its long term outlook for the economy.

In these choppy times it is important to stick to your investing game plan. Most of you will notice that your portfolios are down a little in the quarter, but nothing close to what the markets delivered. In most cases you are showing a solid positive return on the year. The exchange rate has helped you if you hold non Canadian assets. Most of our portfolios take a balanced approach and are globally diversified, positioning them well to manage ongoing risk. It's at times like these that our clients appreciate the defensive approach to investing that our firm promotes.

End of year planning items

- **Tax Loss Selling**: Assessing investments in a loss position to offset gains in 2015 and three previous tax years**.**
- **Registered Education Savings plan (RESP) contributions:** Quebec beneficiaries get the added 10% QESI grant from the provincial government increasing the overall grant to 30%. The deadline for 2015 is December 31.
- **RRSP Contribution Room for 2015:** Please provide us with your room for the 2015 tax year from your Federal Notice of Assessment. The maximum room for 2015 is $24,930. You may need to adjust your automatic savings plans for the coming year accordingly.
- **Tax Free Savings Account (TFSA):** $10,000 of room as per 2015 budget. (had been $5,500 before that)
- **Conversion to RRIF account:** Those of you who turn 71 years of age in 2015 (born in 1944) will need to convert their RRSPs into RRIF accounts before the end of the year. We will be in contact to assist you on how to get that done if you haven't done so already.
- **New RRIF minimums:** Be aware that back in April the Federal budget adjusted RRIF minimum percentages lower for those over age 71, so in 2016 your new minimum payment may be lower. **Please contact us if you have the need to adjust yours.**

The Planning Corner – Currency hedging in a nutshell

Hedging is defined as a strategy that helps an investor reduce the risk they take on an investment. In very simple terms, currency hedging is the act of entering into a financial contract in order to protect against changes in currency exchange rates. Currency hedging is used by financial investors and businesses to eliminate risks they encounter when conducting business internationally. Hedging can be likened to an insurance policy that limits the impact of foreign exchange risk.

Currency returns are an important factor impacting any investor purchasing a non-Canadian asset. Since the underlying investments of these assets are bought in a foreign currency, the appreciation or depreciation of the foreign currency against the Canadian dollar can either add or detract from the total return.

When would a Canadian investor want to be hedged or not?

- **When the Canadian dollar is dropping** in value versus other currencies (like is has been in recent years), an investor would **NOT** want to hedge their foreign currency exposure. Doing so would actually sacrifice the bonus added you're your returns when the exchange rate is in your favor converting back into Canadian dollars.
- **When the Canadian dollar is increasing** in value versus other currencies (as it did from 2002-2007), an investor would **want** to hedge their foreign currency exposure as this would remove the effects foreign exchange movements and give them the return that approximates the return of the local market. You do need to factor in the cost of the hedge.

We still feel that there is more downward pressure on the Canadian dollar than upward pressure so we haven't looked to hedge at this time, but if at some point we feel that there is a serious undervalue of the CAD$ we may find it prudent to add one.

*Source: Morningstar Canada