Dalrymple Wealth Counsel

Building you a secure future

November | 2015

Newsletter

Dalrymple Wealth Counsel

3650 Victoria Park, Suite 205
Toronto, Ontario

Phone: 416-502-9393
Fax: 416-492-9394
ian.dalrymple@raymondjames.ca
www.dalrymplewealth.com

Our Philosophy

We believe that long-term financial security is the result of sound investment disciplines and risk management practices.

Helping clients feel secure in their goals is our first priority.

We believe in:

- Partnership with our clients in the goal setting process
- Clearly identifying each client's unique financial needs and objectives
- Consistent application of a logical disciplined investment approach
- Accountability through adherence to strategies consistent with client financial goals
- Absolute confidentiality

The Long Arm of Oil

The 50% drop in world oil prices over the last 12 months is slowing the global economy. The supply of oil is no longer controlled by OPEC's (Organization of Petroleum Exporting Countries) quotas, but rather by Saudi Arabia and U.S. shale oil development. It also becomes very responsive to oil over-supply and lower oil demand growth.

The significant reduction in new oil and gas development in Canada slowed the Canadian economy earlier this year.

As one of Canada's major economic pillars, the softness of the energy sector has already had a negative effect on the Canadian economy and is likely to have a long term impact. We believe its global impact is also worth discussion (covered in commodities and currencies).

We are waiting to see the further market impact from oil and its impact on specific sectors like aerospace and defence. According to historical experience, geographic tension would spike oil prices sometimes. Not today.

We express our deepest condolences to the victims and their families of the recent Paris terrorist attack.

In this issue, we will cover:

- ***Market Performance and Outlook***
- ***Major Financial Market Headwinds***
- ***Commodities and Currencies***
- ***Investment Strategy Update***
- ***Ageing and its Economic and Social Challenges***
- ***What Lies Ahead with the Liberals in Power***
- ***Community Charitable Support***

Market Performance and Outlook

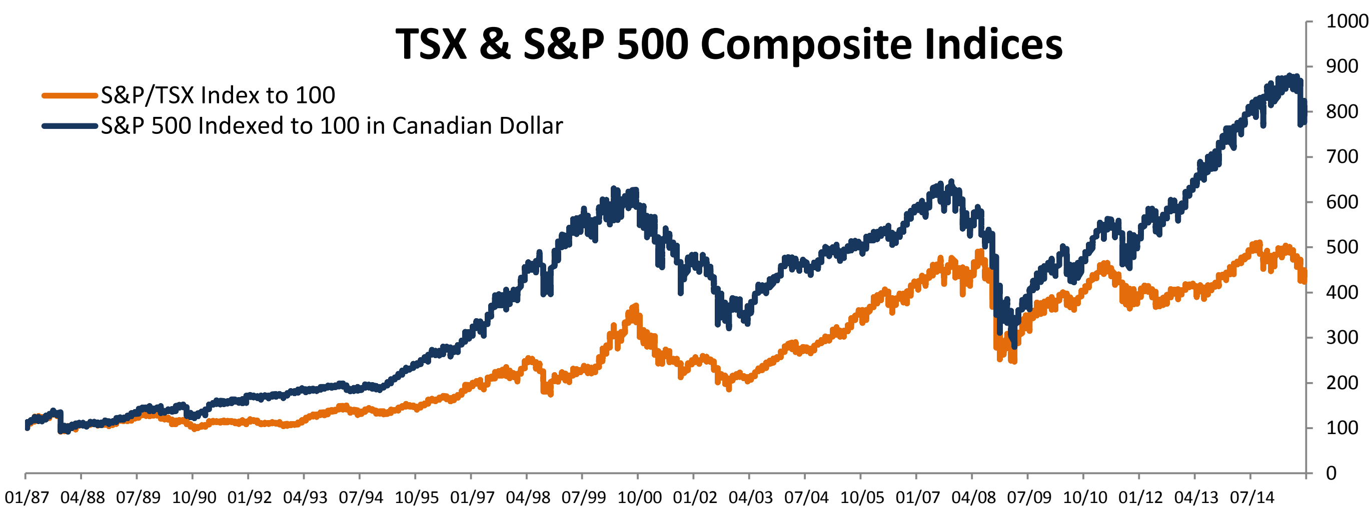
After five straight months of decline, the Canadian Gross Domestic Product (GDP) finally managed a small gain at a very slow pace in the months of June, July and August. On an annualized basis, the economy grew at an annualized 0.9 per cent for August compared to the same month a year ago. With Prime Minister Trudeau and his Liberals in power, new policies may unfold. To help Canada regain its productivity and competitiveness, the Liberals have promised greater investment in infrastructure at the cost of running a deficit for the next 3 years. The awaited expansionary fiscal policy combined with the already accommodating monetary policy (low interest rates) will give the Canadian economy a boost in the long run. Bear in mind, policy usually takes time before having an effect. Across the border, the U.S. posted 1.5% annualized growth for the third quarter which is slower than the previous quarter (3.8%).

Despite the positive GDP numbers, both financial markets (TSX, S&P 500) are in the red for the quarter and 12-month period ending in September. Other major indices throughout the world are not any better with the sole exceptions of China and Japan (see chart below). We are seeing consecutive periods of low equity returns that we have not seen since 2011. On a positive note, the retrenching of stock markets has created a good entry point for investing in the past. The S&P 500 September end cyclically adjusted Price-Earnings ratio has decreased by 7.8% compared to three months ago (from 26.49 to 24.58).

Performance of the Global Markets

Financial Markets (Price Return)	Level	Current Quarter	Past Quarter	Trailing 12 Months
Canada (S&P/TSX Composite Index)	13,307	-8.56	-2.34	-11.05
US (S&P 500 Index)	1,920	-6.94	-0.23	-2.65
China (CSI 300)	3,203	-28.39	10.41	30.68
Europe (DJ Euro Stoxx 50)	3,101	-9.45	-7.39	-3.88
India (Sensex)	26,155	-5.85	-0.63	-1.79
Japan (Nikkei 225 Index)	17,388	-14.07	5.36	7.51
United Kingdom (FTSE 100)	6,062	-7.04	-3.72	-8.47

Note: Performance is measured in local currencies; changes are the indices changes that do not include income. As at September 30, 2015
Source: Bloomberg, Raymond James.



Source: Bloomberg, Raymond James.

Major Financial Market Headwinds

The short term selloff of global financial markets leads us to believe that certain major headwinds and uncertainties are affecting the market and investors' confidence.

The problems in Greece are gradually settling, and the euro zone economy is growing, albeit at an anaemic pace. It has a long fight against deflation mainly due to reduced government spending and the aging population.

The attention of investors has switched from Europe to other market headwinds including: timing of the U.S. Federal Reserve's (Fed) decision to raise interest rates, how growth and re-structuring are progressing in China and weak oil and commodity prices.

The U.S. Federal Reserve's Decision on an Interest Rate Hike

The Fed appears to be back and forth in their attitude towards hiking U.S. interest rates. This has created a lot of uncertainty in the financial markets. While many had anticipated a rate hike in September, the Fed eventually deferred taking action because of the prolonged period of low inflation, the appreciation of the USD, and declines in oil and commodity prices. In addition, based on the tone of the September meeting, a December hike seemed unlikely. However, reviewing the Fed minutes of the October meeting, we find a significant improvement in its outlook concerning global economic and financial growth. It was also agreed that "household spending and business fixed investment have been increasing at solid rates in recent months". All of a sudden, a rate hike in December becomes quite possible again.

In past issues of our newsletter, we have mentioned the possible impact of Fed interest rate uncertainty. At this stage, we feel it would be much better to hike rates sooner compared with the uncertainty of no decision. As the Fed mentioned in their September meeting, "the delay of the rate hike is an undesired buildup of inflationary pressures or economic and financial imbalances that would be costly to unwind and that eventually could have adverse consequences for economic growth". We believe that's why the Fed changed their tone in October to prepare markets and investors for a rate hike, even if it does not happen in December.

Given our long term investment perspective, the rate hike itself is really not much of a concern. We welcome the hike - it will indicate the confidence of the Fed in the economy, ease inflation pressure, and clear the uncertainty in the market. The first hike will take place in the next six months and the magnitude will be small. In the short term, your portfolio may decline due to market overreaction before returning to focus on economic growth.

Progress in China

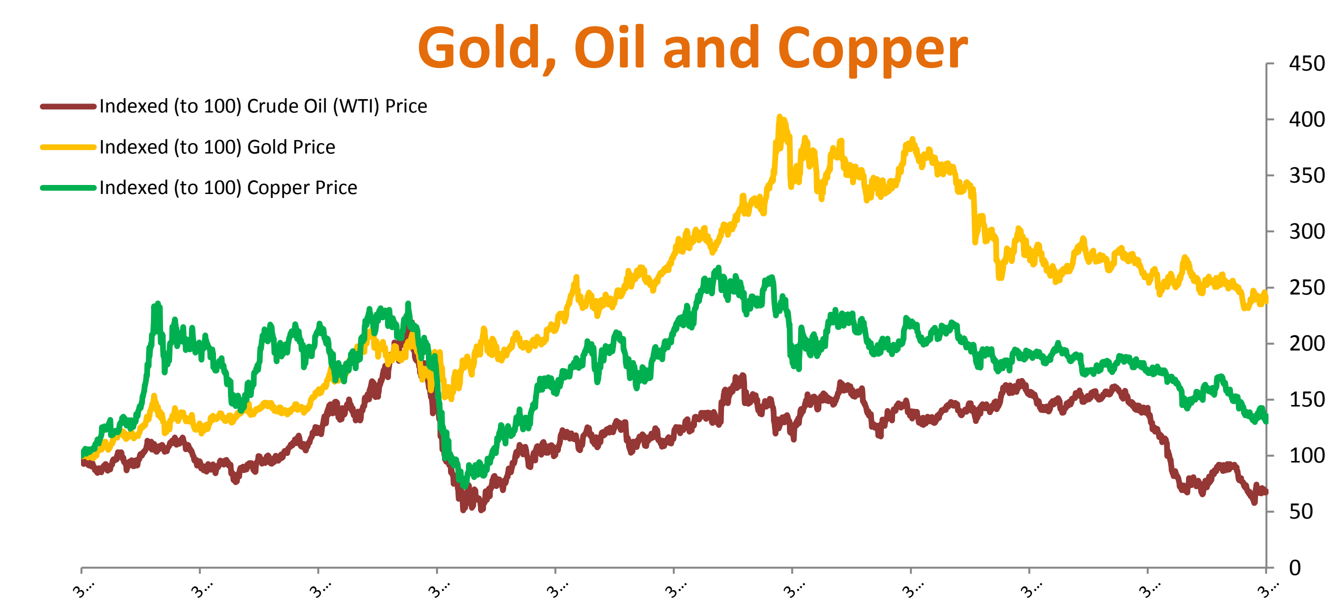
Despite frequent monetary stimulus, the Chinese GDP posted 6.9% growth during Q3 year-over-year. This is the first quarter since 2009 that GDP growth fell below 7% (y/y). Many worry the world's second biggest economy is not going to provide much support. China is a country that is going through economic reform, fighting corruption and switching its growth engine from agriculture & manufacturing to service. The economic slowdown is part of China's "growing pains". However, the lower demand for commodities remains a big concern worldwide, particularly commodity reliant countries such as Canada. Part of our problem is whether or not to believe the published economic numbers.

Commodities and Currencies

We expect to see more softness in oil prices, as Iran starts to produce oil again as a result of the signing of the nuclear deal recently concluded (freeze nuclear activities in exchange for financial relief towards the restraints on the Iranian oil industry). Traditional thoughts believe that the drop in oil prices usually has a short-term negative impact because oil producers would shutter new development to cut cost, but followed by consumers spending more. That is not happening so far. The shuttering of oil and gas investments and development has a multiplied effect on economic growth to the downside.

Globally, large economies such as Brazil and Russia that are dependent on oil exports are experiencing shrinking economies. Other oil producers in some African and South American countries with quasi democracies and subject to corruption are subject to political unrest and damaged economies. Their economies are largely dependent on oil royalties. In the case of China and Japan, both nations of savers and aging populations have increasing oil imports, but at falling costs. However, the decline in oil prices is being saved rather than spent in these countries.

Maize (corn) crops that were previously used to produce ethanol in gas at the pumps will be returned to cattle feed (beef) and will lower food prices in the future.



Source: Bloomberg, Raymond James.

The CAD/USD exchange rate continues to depreciate (-6.14% over 3 months and -15.90% over the year). We see this weakness persisting at least for next year for the following reasons:

- US and Canadian monetary policy – the U.S. is likely to hike interest rates in the next six months while Canada is planning to maintain its expansionary monetary policy now. Such divergence on polices will exert downward pressure on the loonie.
- Canadian fiscal deficit – theoretically when a government runs on a deficit, it will put downward pressure on its currency. The Liberals' spending on infrastructures will likely to pick up Canadian's economy in the long run, when that happens, the loonie is likely to strengthen.
- Other reasons include a low oil price and the relatively strong US economy, compared with the sluggish Canadian economy at this stage.

Commodities and Currencies

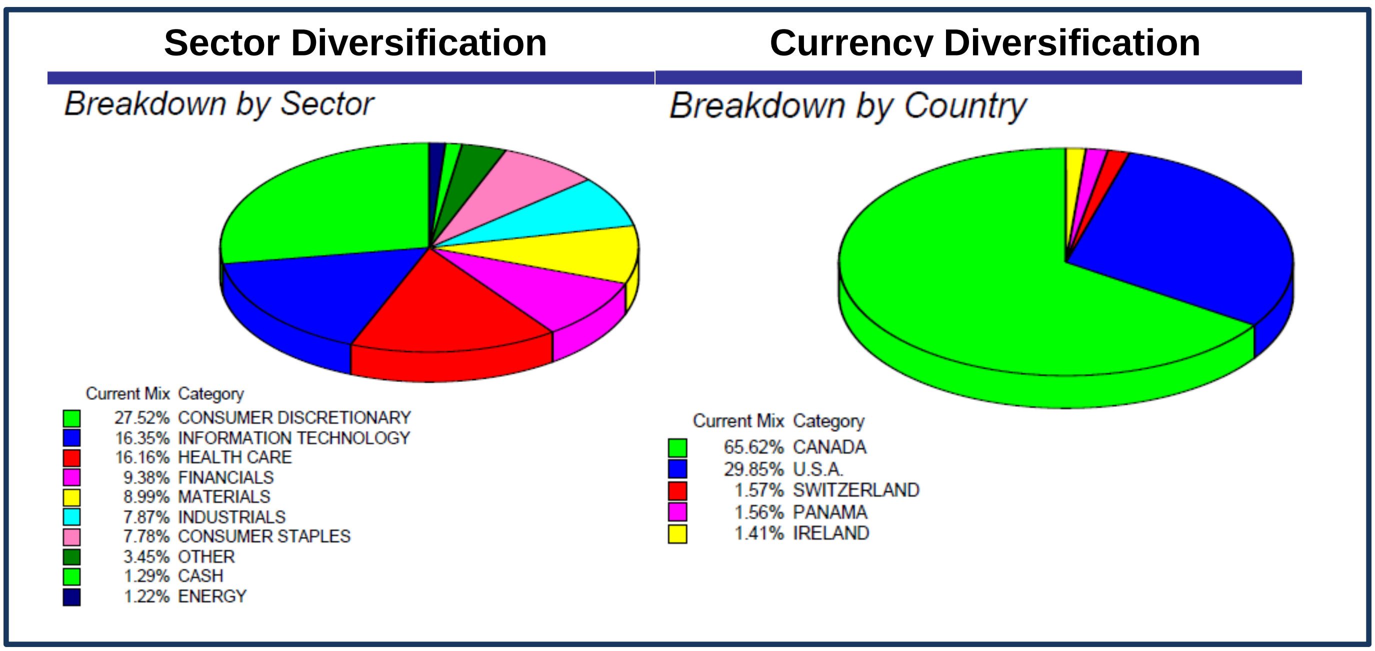
Currency, Oil & Gold	Level	Current Quarter		Past Quarter		Trailing 12 Months	
Canadian Dollar (in US Dollars)	$0.75	↓	-6.14	↑	1.51	↓	-15.90
Oil (US$/bbl)	$45.09	↓	-24.18	↑	24.94	↓	-50.54
Gold (US$/oz.)	$1,115.50	↓	-4.80	↓	-0.96	↓	-7.85
US Dollar (Trade-Weighted)	$96.35	↑	0.91	↓	-2.92	↑	12.12
Copper (US$/lb)	$2.34	↓	-10.77	↓	-4.25	↓	-22.16

Source: Bloomberg, Raymond James. As at September 30, 2015.

Investment Strategy Update

1. There have been no changes to our investment strategy since the quarter ending in June.
2. We are not invested significantly in any commodity businesses.
3. We are invested in two basic material businesses: Agrium (agriculture chemicals) and Valero Energy (oil and gas refining and marketing).
4. There has been no investment in oil and gas production in any equity portfolio since Suncor was sold in May, 2014.
5. On the strategic side, we began shifting some portion of all portfolios away from Canadian securities towards US securities when the Canadian dollar was above par during 2011. In the last quarter of 2013, we shifted further towards US securities when the U.S./Canadian dollar was in the $1.10-$1.12 range. At the present exchange rate, we are not contemplating any further shift to the U.S.

Please see the charts below, on average portfolios weighting by sector as of the end of Q3. Please note that sector and currency diversification for individual portfolios may vary.



For more information about our historical return, investment approach and risk management, please visit our website. For more information about your portfolio, please consult your quarterly report or call us to discuss.

Ageing and its Economic and Social Challenges

Robert Hughes, Financial Advisor

"The ageing of populations is rapidly accelerating worldwide. For the first time in history, most people can expect to live into their 60's and beyond. The consequences for health, health systems, their workforce and budgets are profound".[1]

Dr. Margaret Chan, Director-General, World Health organization penned these words in the preface to the World Report on Ageing and Health.

The world is ageing rapidly, which is one of the most important demographic trends of this century. People aged 60 and older make up 12.3 per cent of the global population, and by 2050, that number will rise to almost 22 per cent.[2]

Recently released findings by Statistics Canada shows that seniors living in Canada outnumber children for the first time. As of July 1, 2015 16% of Canadians were 14 or younger while 16.1% were 65 or older. This trend toward a much older population is not unique to Canada and is shared by the rest of the industrialized West.

An ageing population presents many challenges to its society. The exiting of baby boomers (born between 1946 and 1964) from the Canadian labour force will, and has already, set off a chain reaction of:

- Slower growth
- Low interest rates
- Weaker investment returns
- Budget squeezes for governments
- Growing intergenerational tensions
- A work force having to deal with losing a generation of skills and experience that won't be easily replaced
- Projected underfunding of defined benefit plans

Each of these economic and social challenges will be looked at more closely and shared in future quarterly updates.

Ageing is a triumph of development: People are living longer because of better nutrition, sanitation, health care, education and economic well-being. Although an ageing world poses social and economic challenges, the right set of policies can equip individuals, families and societies to address these challenges and to reap its benefits.[3]

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[1] Dr. Margaret Chan, Director –General, World Health Organization
[2] UNFPA – United Nations Population Fund
[3] UNFPA – United Nations Population Fund

What Lies Ahead with the Liberals in Power?

Ziyu Chen, Registered Representative

The Liberals and Justin Trudeau have won a majority government defeating the Conservatives in the September election.

We have summarized some major possible changes that may affect your everyday financial plan.

	Current policy under the Conservatives	**Proposed by the Liberals**
Tax Free Save Account (TFSA)	Now at $10,000/year	Set back to $5,500/year and increase according to inflation
Personal Income Tax Rates	• 15% - 22% on first $44,701 • 22% on next $44,700 • 26% on next $49,185 • 29% on over $138,586	• The second tax bracket (left) for middle class will be cut to 20.5% • New tax bracket of 33% for income more than $220,000
Family Tax Cut	Allows couples with children under age 18 to split up to $50,000 of income, but capping the non-refundable benefit at $2,000 per year.	The family tax cut will be cancelled; will keep pension income splitting for seniors
Child Care Benefit	**Universal Child Care Benefit (UCB)** • $160/month/child under 6 • $60/month/child 6-17 • Both benefits are taxable	**Canada Child Benefit** • Tied to family income, the more family income the less the benefit. • Benefit received is tax free.
Old Age Security (OAS)	Initial receipt age increase from 65 to 67 starting 2023	Initial receipt age remains at 65
Canadian Pension Plan (CPP) & Employment Insurance (EI)	• May allow voluntary additional contribution to CPP • Reduce EI premium to $1.49/$100 earned by 2017	• Increase CPP • Reduce EI premium to $1.65/$100 earned by 2017

As your wealth management team, an important part of our job is to utilize the government's policies to safeguard and accumulate wealth for you. At this stage, we would like to wait and see how the new Liberal policies unfold before making any adjustment towards your financial planning. Nonetheless, we are here to answer your questions and concerns and will update you if there are any of these policies that will have an impact on your portfolio.

Consult your tax advisor concerning your own family circumstances.

Reference:

Election 2015: How proposed tax measures could affect you and your business. (2015, October), Grant Thornton.

GIVING BACK TO THE COMMUNITY

"Giving back to the community is in the DNA of Dalrymple Wealth Counsel, and an important part of our vision of the future. We choose our partners carefully – where we have a relationship to build a better tomorrow."

… Ian Dalrymple

Marisa Bertoia, Branch Administrator

What Skate with Daniel Accomplished

The end of 2015 is fast approaching, and you may find yourself reflecting on what you have accomplished thus far. This past year Skate with Daniel, in conjunction with Raymond James hosted a dinner and concert in which Chantal Kreviazuk serenaded the audience with her inspiring songs. We raised over **$80,000 (net)** for the SickKids foundation for brain tumor research through this event, and **$675,000 (net)** since our inception in 2008.

If you are considering making a charitable contribution as the year end approaches, please consider Skate with Daniel as one of your options (you can take advantage of any appreciated securities as a tax credit). Our goal is to reach $1,000,000 and your support will go a long way in helping us achieve this goal to help find a cure for childhood brain tumors. We have all been touched in some way or another by cancer….let's come together and give a little. IMAGINE FINDING A CURE!

To read more about Daniel's story and Skate with Daniel, please visit: **www.skatewithdaniel.com**

On the website, you will also find the 2014-15 Annual Report, which showcases the role we, and many others, play and what we have all accomplished by working together.

To make a donation of appreciated securities or cash, please contact Marisa Bertoia at:

marisa.bertoia@skatewithdaniel.com or 647-203-7628

SICKKIDS HOSPITAL

GRAND SPONSORS $500,000 – $999,999

The Daniel Bertoia Family Fund - Skate with Daniel