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Market Update

28 Oct 2016

After having watched all the presidential debates and analyzing them the word ugly comes to mind. Both candidates failed to consistently communicate clearly and concisely during the debates. The word mansplaining comes to mind which refers to when one individual with authority talks to another person in a condescending and patronizing manner. Donald Trump in his own right is successful, a celebrity, a business man and wealthy. Hillary is successful, a stateswoman, well liked by democrats and also wealthy. What separates the two is their choice of career paths and individualism. Both are very much “get it done” and “my way or the high way”. The style of thought that both come from are antiquated “I’m in charge” tactics. In today’s world that will not fly. The youth vote is continually declining not because millennials don’t care, but because their definition of leadership is one of inspiration not perspiration. A leader must motivate voters and provide direction and guidance. Dancing around issues and avoiding the question only leads to dissatisfaction. The youth vote is not just declining in America but in most developed nations. Democracy is not to blame but the candidates for leadership. The simplicity of democracy is that it allows for an orderly transition of leadership every 4 years without political and economic turmoil. Don’t get me wrong, Hillary knows Washington inside out just like Donald knows how not to pay taxes. When this presidential election started every one wanted change. The Republics were looking to a Ronald Regan type to bring about waves of economic prosperity. The Democrats



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were looking to a Bill Clinton type who did the same. Why Ron and Bill? Both were responsible for bringing about massive fiscal stimulus which propelled America in a decades long cycle of prosperity. Well, as it turns out Donald Trump is no Ronald Regan. President Regan inspired, motivated and powered the American dream and did so by reaching out to both republicans and democrats. Hillary is no Bill. President Bill Clinton did the same by inspiring the masses to forge together and energize America.

The founding of the United States was based on very elementary reasons: the removal of family dynasties from governing (monarchies) and oppression of the masses by the super wealthy. Both Donald and Hillary are super wealthy and represent dynasties that wish to govern America.

Economic growth accelerated last quarter, easing fears of a near-term slowdown but doing little to change the trajectory of a long but weak expansion. Gross domestic product, expanded at an inflation and seasonally adjusted 2.9% annual rate in the third quarter, as reported by the Commerce Department. This was stronger growth than the second quarter's pace of 1.4%. Last quarter's growth rate was the fastest recorded in two years. Third quarter acceleration largely reflected increased exports and a buildup of inventories. The American industrial machine keeps chugging along aided by strong household spending. Investors and voters must wait till after November the 8th to understand their fate. Spooked by all this uncertainty market volatility is high. Investors are looking for shelter from jittery securities and are lured by the prospect of juicy dividend payouts, and have been shovelling money into high dividend paying stocks. The hunger for yield has pushed up prices of these "bond like" equities all due to ultra low interest rates. Although a dividend paying stock provides a consistent stream of income while letting investors tap into the stock market's upside, it's becoming increasingly difficult to find yield as stock prices on dividend payers are nearing high watermark multiples. Keep in mind that valuations are high on bond proxy like securities as many financial vehicles that have consistent yield are at

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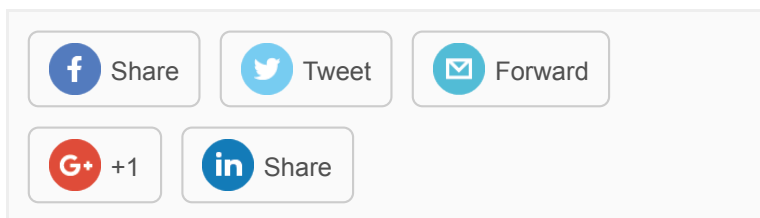
high evaluations currently. This can be said about treasuries, dividend paying stock to rental properties, reit's and commercial real estate. Ultra low interest rates have even pushed home prices beyond reason due to dirt cheap borrowing costs. During each and every economic cycle when monetary easing occurs inversely the valuation of yield driven investments just rockets. America is leading economic reform globally with all other nations desperately attempting to painfully follow with most failing miserably. The American Federal Reserve will do everything in its power to keep the growth engine going. At present, foreign direct investment is flowing at high levels into North America with New York and Miami being the hot spots. Europe's loss will be America's big win. However without a strong decisive administration in power that can reunite the American people the application of fiscal stimulus plied with direct injection of helicopter money will be challenging. In short, this American election cycle has failed to inspire confidence. Another 4 years of an Obama era administration full of prolonged political bickering and blockages will mean the Federal Reserve will resume it's active hand and bring about positive change.

The reality for both Britain and Germany that the divorce proceedings must go forward are starting to hit hard. As with any financial break up assets will be heavily discounted and those relying of the Union to do business will take their transactions elsewhere. Specifically in London real estate prices have started to cool with the forecast indicating that home prices will drop between 5% and 7%. In Germany, the Feds are bracing for weaker economic times by cracking down on tax collection. Germans are some of the most over taxed people in the developed world. The big leap for the ECB and EU leadership is to right size their banks. Don't hold your breath for quick turnarounds. Slow, anemic and painful will be the trajectory.

China too must be bold and willing to restructure debt and finances so far it has proven to rely heavily on the bad habits which brought it here in the first place. China is the next economic time bomb to go off not the United Kingdom nor the EU.

Oil continues to fight to stay above \$49.00. OPEC's price agreement looks to stand the same chance as a snowball inside a volcano. Even if OPEC does reach an agreement at prices above \$40.00 shale energy producers in America are back in the black pumping out liquid gold. Slumping prices are here for the near future. Don't expect a price break at the pump!

The Liberals have spent 30 billion dollars and all of the 3 billion in rainy day money. Finance Minister Bill Morneau will be delivering rounds and rounds of bad news. His message will be: "good news about the future will have to wait". What does that mean? Well, in simple non politico terms: spend more, tax more and double immigration. Hold on here. The latest Statistics Canada report showed that job creation is less robust than hoped. Statistics Canada also reported in June that private business investment back into the economy fell for a fifth straight quarter. A weak dollar and less capital spending by corporations means Canadians' buying power is declining. It must be great to be a politico. You can spend and make expensive financial decisions with no fear of being held accountable. Billion dollar decisions are being made daily. If we ran our financial houses using the same metrics, we'd be on the streets broke. Oh the power of taxation. Bad decisions are washed away with tax payer dollars. Putting my sarcasm aside, fiscal policy stimulus works in the right hands of a highly tactic administrations. At present this administration looks to be using a shot gun approach. More and more dollars will be burned until something that works kicks in.



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