



August 31, 2015

This Too Shall Pass

We continue to buy the types of securities we already own.

This was the sentiment and message from our friends at Macro Research Board Partners (MRB) this week and reflects our own position. MRB is a world renowned, independent, market and macroeconomic research firm that we use as an important input towards determining the tactical component of our investment management. These are the decisions on country, currency, sector, and asset class exposure.

Recent market turmoil has been unnerving for some, and here we put things in perspective for our clients and readers.

We are in the middle of a long, yet subpar global economic expansion, and a global bull market in stocks that began in March 2009. In the last 6 years we have now seen five 10+% corrections and may see more in the coming years. These are periods of opportunity!

Major bear markets are usually caused by recessions, and there is no reason to believe that we are on the path towards one. The global economy continues to expand, with economic growth in the U.S. gathering momentum, and improvements in both Europe and Japan fostered by central bank intervention (QE). Global central banks and policy makers maintain a very stock market friendly stance. We remain positive on the outlook for stocks, even more so after the recent pullback in prices. We also are mindful of the impact of a rising interest rate environment on bond returns. We anticipate stocks will materially outperform bonds, especially in the U.S., Europe and Japan, with a lag in Canada in both equity returns and interest rate direction.

China is now the second largest economy in the world, and its markets and headlines have become very topical. It is important to emphasize that China's stock market is not reflective of their economy. China's economy is slowing to a more sustainable growth rate, and continues to evolve from manufacturing and export based, to a more balanced combination including a vibrant domestic consumption component. This is a good thing. Conversely, its stock market is an arena for gamblers and speculators, and will continue to be as such for the time being. Any collateral impact of this volatility in China will provide for good entry points in global developed markets.

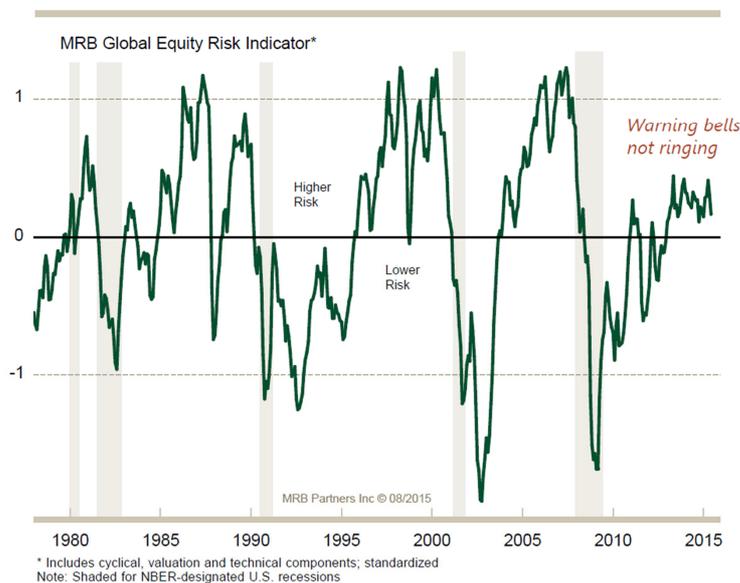
We expect U.S. equities to outperform in the short term but see greater opportunities in Europe and Japan on a 6 – 12 month horizon. Industrials, technology (including biotechnology) and financials have performed well during this mid-cycle expansion, and we stick with these themes. The U.S. dollar has been and will be particularly strong relative to the currencies of commodity exporting nations, and is likely to be one of the stronger currencies for some time.

We continue to see depressed prices for most commodities for years to come as the oversupply of particularly base metals, oil and gas is worked out. Trading rallies within these sectors will occur, but will be fraught with risk. We are heavily underweight commodity exporting developed economies (Canada, Australia, New Zealand and Norway), as well



as their currencies, and simply avoid commodity exporting emerging economies (e.g. Brazil, Russia etc.).

The global bull market in stocks will continue, but with near term volatility. There are wild cards to be sure; a policy error by any one of the major central banks; even higher tensions in any one of the global geopolitical hot spots; heightened terrorism issues and more. Outside these wild card issues, there are no warning bells ringing for stock markets, and we believe the runway for further growth in equity prices continues well ahead of us.



Investors should continue to hold securities, favouring stocks over bonds and, as always, in concert with their own investment policy statement (IPS). If you don't have an IPS, then that's your first step!

As always we welcome discussion and questions.

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