KEATSCONNELLY
ENRICHING YOUR CROSS-BORDER LIFESTYLE

June 30, 2016

REVIEW OF THE SECOND QUARTER

The quarter ended on a rocky note after the UK voted to leave the European Union. Investors were left scratching their heads as to how this will all shake out. The largest fallout was the drop in the British Pound. The British currency now trades about 12% lower relative to the US dollar, than it was prior to the vote. Other currencies around the world, including the Canadian dollar, also dropped relative to the US dollar as investors deemed a flight to safety as an appropriate response. Right or wrong, investors still view the US as a safe haven in turbulent times.

The stock markets were impacted by the uncertainty as well. Most stock markets around the world dropped after the UK vote to leave the EU. But for many world stock markets the downward move lasted only a day or two. The long-term impact of this vote for the UK will be increased administrative costs with unknown potential benefits.

Canadian stocks have done well so far in 2016 after putting in a poor showing in 2015. Through June 30, 2016, Canadian stocks, as measured by the S&P/TSX 60, are up almost 8%. This can be contrasted to a 3.8% rise for the S&P 500 stock index year-to-date through June 30, 2016. The CAD also has strengthened in 2016 even with the recent pullback, and these returns do not take into account the currency adjustment. As a Canadian investing in US stocks you also feel the impact of the currency on your returns.

Gold has also continued to do well, a trend that started at the beginning of the year when gold, oil, and many other commodities seemed to have found a bottom. Oil has climbed back to around $50 a barrel after dipping down to the low thirties at the beginning of 2016.

Bonds have had moderately good performance as interest rates around the world continued to decline. Central banks in many developed countries, with the exception of the US, are still taking steps to increase liquidity and keep their economies from slowing down.

We continue to recommend being fully invested in a strategy appropriate for your ability to bear the risks that will come in the future. Dividend yields around the world are better than many 10-year government bonds! Cash yields are still very low at most financial institutions. There are some values in some fixed-income securities but a diversified portfolio that includes exposure to stock markets around the world is still most likely to provide a good long-term outcome.

Investment Committee Update

During the second quarter our Canadian investment committee has been examining ways to adjust the value and small cap factors that are core to our stock strategy. We will provide more information on this in future investment communications.

We have also been developing better capabilities on the fixed income side in two ways. We have worked with partners at our Canadian custodians and brokers to build individual fixed income portfolios. We have also opened up discussions on provided a pooled fixed income product that could be used instead of mutual funds or ETFs.

Sincerely yours,
KEATSCONNELLY

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