

The Charter Group Presentation Summary



At four sessions over two days, we welcomed over 170 guests to our 2017 Fall Economic & Market Update. For those who were not able to make it, and for those attendees who would like an overview of the agenda, we have produced this summary.

Climbing the Wall of Worry

A phrase to describe a rising stock market despite a multitude of concerning issues

Global Issues

North Korea

- **Incendiary rhetoric between NK & the US is concerning**
- **Weekly threats are mostly rhetoric but demand caution**
- **Common theme in media is need for diplomatic solution**



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- **Assumes that NK just wants to be left alone**
- **But that might be risk to the regime**
- **Glaring differences between life in North & South Korea**
- **NK population may not be content with that**
- **Flow of information into NK exposes these contrasts**
- **NK population might question Leader Kim's divine status**
- **NK regime may need a strategy other than diplomacy**
- **NK's long-term ambition has been to recapture the South**
- **The US is the impediment because of US military presence**
- **NK views US as uninvited foreign occupiers**
- **NK views "peace" as unified Korea under Pyongyang rule**
- **NK's nuclear chess is to exhaust the Americans**
- **Maintaining US troop presence is expensive**
- **Dealing with a nuclear NK makes it even more expensive**
- **NK would like the US to re-prioritize**
- **Why risk San Francisco to save Seoul?**
- **But, NK underestimates US resolve**
- **And US must demonstrate to other "enterprising" nations**
- **S Korea's younger demographic isn't keen on unification**
- **Unification is an economic risk for young South Koreans**
- **And, young South Koreans are the future**
- **Bottom line: A perpetual cold war as opposed to diplomacy**
- **But, cold wars are expensive – very capital intensive**
- **Increased military costs could increase US debt**
- **More US debt heightens debt crises & inflation worries**

China

- **Currently holding once every 5-year Congress in Beijing**

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- **To select Central Cmmte., Politburo, & Standing Cmmte.**
- **A narrative of strong economic growth**
- **But growth is half the rate it was 8 years ago**
- **And signs of Govt insecurity leading up to Congress**
- **Tight security, cancelled sporting & cultural events**
- **Winnie the Pooh resembles Pres Xi, so banned from internet**
- **These are not signs of confidence from a strong economy**
- **China is getting older quickly – not good for econ growth**
- **Interest rates are not going down much anymore**
- **China was a major benefactor of declining interest rates**
- **China's accumulated debt could weigh on future growth**
- **Salary expectations have multiplied over last 2 decades**
- **Hard to be competitive on costs with higher wages**
- **Bottom line: China's demand for Cdn resources levelled off**
- **Canadian resource sector slowing down capital investment**

Europe

- **Catalonian separation from Spain = anxiety for Euro stocks**
- **No nice ending as Catalonia has no allies**
- **EU not likely to abandon its loyal member Spain**
- **EU unlikely to recognize Catalonia**
- **Economic & security issues are concerns w independence**

Japan

- **PM Shinzo Abe won convincing general election last week**
- **Could signal continued easy monetary policy**
- **Easy monetary policy has help to Japanese stocks higher**
- **PM Abe's new mandate also focus on Pacifist Constitution**

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- **Japan concerned US may not always be there to defend**
- **Risk of upgrading to full military, adding to regional tension**

United States

Navigating Political & Economic Confusion

- **Impeachment is very hard, thus unlikely despite media**
- **President Trump will be around for a while**
- **Political confusion will likely persist**
- **Obamacare looks to survive for remainder of Trump's term**
- **Seems unrealistic to pull coverage from 25m people**
- **Obamacare a burden for small businesses that continues**
- **Infrastructure is bi-partisan, but off to slow start**
- **The Wall is a budget issue – conservatives don't like debt**
- **Tax plan compromise should increase chance of passage**
- **Increased spending + tax cuts could accelerate debt growth**
- **US stocks have been helped by hope of corporate tax cuts**
- **NAFTA negotiations currently look unhopeful**
- **Many non-starters being demanded by U.S.**
- **US, Canada & Mexico will likely be hurt with no agreement**
- **Stock market may not be happy with no agreement**
- **President Trump to appoint new U.S. Federal Reserve Chair**
- **Multiple candidates with different styles**
- **A "hawkish appointment" could spell higher rates**
- **Higher rates are historically not great for stock prices**
- **US stocks up over 20% since election**
- **Unexpectedly good earnings momentum a big factor**

Canada

A Clash of Policy and Reality

- Politics has gotten more complicated recently
- Used to be simple: beat older leaders with youthful energy
- Now, all the party leaders are youthful and "with it"
- Liberals got votes from NDP voters last election
- New NDP leader Jagmeet Singh will try to stop that
- So appeal to NDP voters w tax for small biz & professionals
- Attempt to stereotype the tax targets as all rich
- Obviously backfired
- Policy not aimed at economic objective, but political goal
- Has caused policy confusion
- Now we don't know what to expect going forward
- Harder for businesses to plan, invest and hire people
- This is a net-negative for the economy
- And, What's the national economy strategy these days?
- Investors & businesses looking for answers

Highlighted Investment Holding

QUALCOMM Inc

- Purchased in June 2016
- San Diego-based semiconductor manufacturer
- The leader for base-band modems in smart phones
- Stock has been hurt from adverse legal judgements
- Apple & Samsung claim monopolistic abuse

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- **Apple & Samsung point to royalty agreement as evidence**
- **Royalty is determined by final retail price of the phone**
- **Apple's phones are the most expensive**
- **So, Apple must pay a higher royalty for the same chip**
- **Xiaomi & Huawei pay less because their phones are cheap**
- **But the royalty agreement isn't new**
- **Smartphone market turned out to be really lucrative**
- **QUALCOMM was kind of lucky in this regard**
- **Reversing judgements on appeal would be a positive**
- **But, there is a risk that they won't be reversed**

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Accountability is further enhanced by the fact that we commit our own investable wealth to the same model portfolios in which our clients are invested.





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