TD Wealth

Private Investment Advice

The Charter Group Monthly Letter

March 2017

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Economic & Market Update

Hi Ho Silver

Over the last quarter of a century, we have seen a revolution in the way that information is collected and communicated. This has transformed the way we debate politics, consume entertainment, and plan our lives and social activities.

Compiling investment information has gone from tediously laborious to instant.

This revolution has also had a profound impact on how investments are managed. My career began in the pre-World Wide Web era which has given me a front row seat from which to view this progression and its impact on the ways that investments are priced.

My first interaction with investment information was browsing the financial page of *The Vancouver Sun* in the late 1970s. Of particular interest were the daily quotes for commodities as this was a time where anything that represented an inflation hedge attracted investor attention. Every few days I would take a look at *The Vancouver Sun* and ponder the prices for gold, silver, platinum, oil, gasoline, and mercury.

In the 1970s, daily newspapers were the "go to" source for investment information.

For a while, the price of mercury was a source of excitement for me and a few of my elementary schoolmates. There was a flask of mercury in the science lab and according to *The Vancouver Sun*, the price for a “flask” of mercury was about the same as the price for an ounce of gold! That excitement evaporated when we discovered that a “flask” for the purpose of commodity trading was equivalent to 76 pounds of mercury. The little glass flask in the science lab probably did not contain more than a pound.

In the autumn of 1979 a cousin of mine told me that he had bought silver bullion a few months earlier and that the price had increased significantly. This made a huge impression on me. The investment scene of the 1970s had been plagued by inflation, oil cartels, energy shortages, unemployment, and the costs of the Cold War. My cousin’s tale was the first good news story I could remember. From that point on I would eagerly await the evening delivery of *The Vancouver Sun* and check the price of silver.

I began following silver in late 1979 after a run-up in price.

Over the next few months, the price of silver skyrocketed. However, apart from the occasion headline about the Hunt brothers from Texas attempting to corner the market, I had no other information. So, I went down to the West Vancouver Memorial Library to do some research. They had a subscription to *The Wall Street Journal* which contained a daily column titled “Commodities Corner” and about once a week it contained a blurb about silver. However, the information was not much better than the occasional coverage in *The Vancouver Sun*.

***The Vancouver Sun* and *The Wall Street Journal* were my only sources of information.**

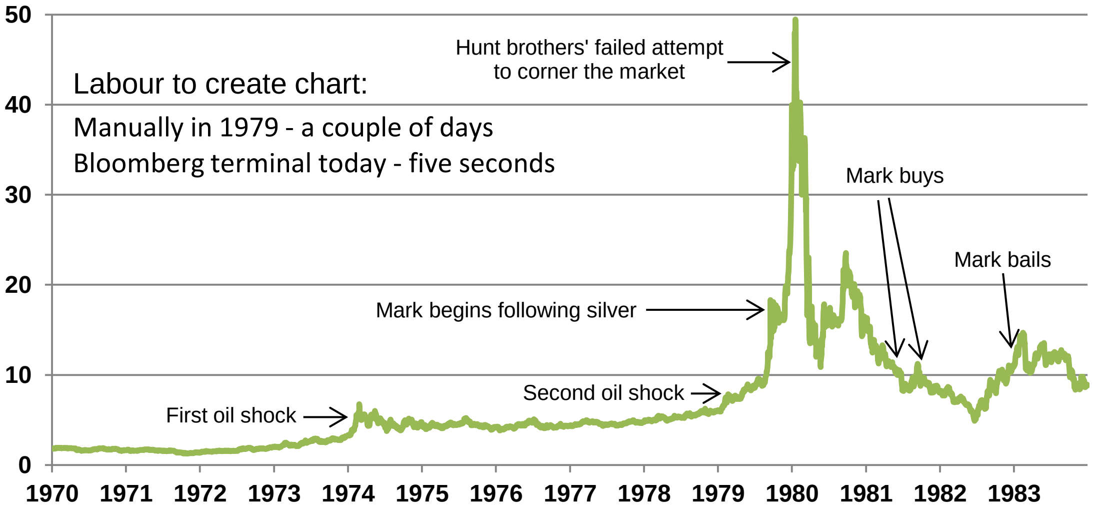
I decided to ask a librarian if there was any other specific information on silver such as a price chart. After much searching, we couldn't find anything. It was then suggested that I go through the back issues of *The Wall Street Journal* by using the microfiche archives at the library, record the daily price quotes, and then plot the price on chart paper.

I decided to create a 10-year chart. Each roll of microfiche included full month of *The Wall Street Journal*. The process entailed retrieving the microfiche from the archive, installing it on the microfiche reader, scrolling to the commodities page of each edition, and copying down the silver price. After two long days at the library, I had ten years of data with which to do my chart plot. After that, I would go back to getting the price quote from *The Vancouver Sun* and my chart would slowly reveal the wild price movement in silver over the next few months (**Chart 1**).

If I wanted a price chart, I had to search through back issues of a newspaper and then plot every price movement on chart paper.

Chart 1:

Silver - USD per Troy Ounce (Mark's Silver Chart)



Source: Bloomberg Finance L.P. as of 3/3/2017

During the dramatic price increase, I didn't buy any silver. I was still learning about the metal and, more importantly, I didn't know how to buy bullion.

By the spring of 1980, the price had crashed. But my interest had been stoked and I continued to follow and chart the price. By mid-1981 the price had come back to the levels before the bubble. My cousin informed me that bullion could be purchased by taking a bank draft down to a Scotiabank branch and purchasing a certificate that would indicate the number of ounces of silver that would be held, for a fee, in a safe place where I would never see it. So, with the price back down to what I perceived to be a reasonable level, I bought some. The price fell a bit more, so I added to my purchase. Then it fell some more. I wasn't feeling too great about this, so I backed off from buying anymore. I would also let the back issues of *The Vancouver Sun* stack up and then do my chart-update only once every couple of months. As the price fell further, my enthusiasm waned. It became a slog to keep that darn chart up to date!

The price finally began to turn in mid-1982. By only doing the chart updates every few months, this caught me by surprise. However, I was still underwater on my position until well into 1983. When I was at break-even, I marched down Scotiabank to sell my silver, initially relieved that I had survived unscathed, only to realize that I had to pay them the safekeeping fee!

That silver chart that I created and then spent so much time curating took untold hours of labour. I can now create that chart in five seconds on my Bloomberg terminal, customize any way I want, and apply a whole array of technical analysis tools.

Now, charts and other investment information are instantly available.

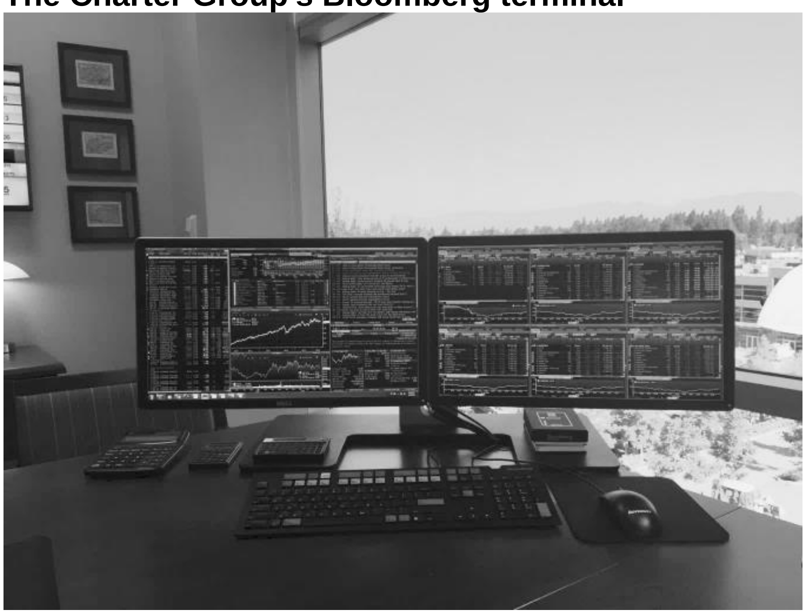
There are over 330,000 Bloomberg terminals around the world in addition to the one on my desk. The ability of this massive crowd of investment professionals to get good information immediately on almost anything has changed the way markets function. When I first got into the industry, those who got first access to basic information had an enormous advantage. That advantage has disappeared. Instead, the advantage has shifted to those who are able to sift through the information overload *and* who are able to interpret the selected information correctly.

The battle is no longer focused on compiling the information.

The battle is now focused on using the information correctly.

An investor with an up-to-date price chart was something special 35 years ago. Not anymore.

Image 1:
The Charter Group's Bloomberg terminal



Source: Mark Jasayko

Model Portfolio Update[1]

The Charter Group Balanced Portfolio
(A Pension-Style Portfolio)

	Target Allocation %	Change
Equities:		
Canadian Equities	15	None
U.S. Equities	34	None
International Equities	11	None
Fixed Income:		
Bonds	28	None
Alternative Investments:		
Gold	7.5	None
Commodities & Agriculture	2.5	None
Cash	2	None

No changes were made to The Charter Group Balanced Portfolio's target asset allocation or to the individual investments during February.

No changes to the Balanced Portfolio in February.

U.S. stocks were a major contributor to the Balanced Portfolio's results as they continued to ride the post-election Trump tailwind. By some fundamental measures, the U.S. stock market has not been this overvalued since 2003. However, if investors want to irrationally send markets to higher levels, Mike Elliott and I will gladly accept those gains while concentrating on portfolio risk management efforts in order to prepare for any ensuing downswing.

U.S. stocks are a positive contributor to results as the Trump Rally continued.

The decline in the Canadian dollar over the month relative to the U.S. dollar helped to accentuate the positive impact from the American stocks.

A declining Canadian dollar further helped the U.S. stock positions.

[1] The asset allocation represents the current *target* asset allocation of the Balanced Model Portfolio as of 3/3/2017. The asset allocations of individual clients invested in this Portfolio will differ because of the relative performance of the asset classes since the last rebalancing and because of differences in the timing of deposits and withdrawals. The Balanced Model Portfolio is part of a sequence of five portfolios ranging from conservative to aggressive: Conservative, Balanced Income, Balanced, Balanced Growth, and Growth.

Gold was the other significant contribution to the results as global geopolitical (North Korea) and economic (Greece) risks increased its safe-haven appeal. U.S. domestic political wrangling (Trump & Russia) also added to the allure.

Gold had a good month as more investors sought it out as a safe-haven.

Canadian stocks started well as investors found some relief with respect to anxieties surrounding trade with the U.S. and possible alterations to NAFTA. Comments from American trade officials and political leaders suggested that the U.S. is primarily concerned with Mexico with respect to trade policy.

Trade developments helped Canadian stocks early in the month.

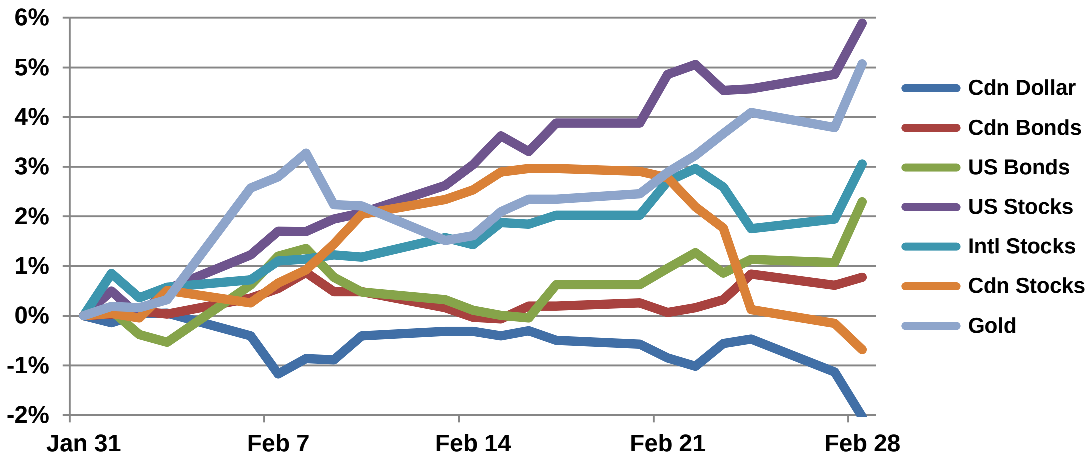
The good vibes surrounding Canadian stocks dissipated towards the end of the month as investors started to fret about areas of slack in the Canadian economy, a lack of corporate capital spending, and possible tax measures forthcoming in the next federal budget. Topline economic growth and employment looked good, but concerns regarding competitiveness vis-à-vis the U.S. emerged when digging into the details of the reports.

Domestic economic concerns hurt Canadian stocks later in the month.

Below is the February 2017 performance of the asset classes that we use in the construction of the Charter Group Balanced Portfolio (**Chart 2**).[2]

Chart 2:

February 2017 Performance of the Asset Classes (in Canadian dollars)



Source: Bloomberg Finance L.P. as of 3/3/2017

[2] Source: Bloomberg Finance L.P. – The Canadian dollar rate is the CAD/USD cross rate which is the amount of Canadian dollars per one U.S. dollar; Canadian bonds are represented by the iShares Canadian Universe Bond Index (XBB); U.S. bonds are represented by the iShares Core U.S. Aggregate Bond Index (AGG); U.S. stocks are represented by the iShares Core S&P 500 Index (IVV); International stocks are represented by the iShares MSCI EAFE Index (EFA); Canadian stocks are represented by the iShares S&P/TSX 60 Index (XIU); Gold is represented by the iShares Gold Trust (IAU).

Top Investment Issues[3]

Issue	Importance	Potential Impact
1. China's Economic Growth	Significant	Negative
2. Canadian Dollar Decline	Moderate	Positive
3. Long-term U.S. Interest Rates	Moderate	Negative
4. U.S. Fiscal Spending Stimulus	Medium	Positive
5. Canada's Economic Growth (Oil)	Moderate	Negative
6. U.S. Foreign Policy Uncertainty	Medium	Negative
7. Massive Stimulus in China	Medium	Positive
8. Short-term U.S. Interest Rates	Light	Negative
9. Japan's Money Printing	Light	Positive
10. Europe's Money Printing	Light	Positive

[3] This is a list of the issues that we currently deem to be the ten most important with respect to the potential impact on our model portfolios over the next 12 months. This is only a ranking of importance and potential impact and *not* an explicit forecast. The list is to illustrate where our attention is focused at the present time. If you would like an in-depth discussion as to the potential magnitude and direction of the issues potentially affecting the model portfolios, we encourage you to email mark.jasayko@td.com and set up a time to talk face-to-face or by phone.

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The Charter Group at TD Wealth is a wealth management team that specializes in discretionary investment management. For an annual fee, we manage model portfolios for private clients and institutions. All investment and asset allocation decisions for our model portfolios are made in our Langley, B.C. office. We do not outsource any of the decision-making for our model portfolios – there are no outside actively-managed products or funds. We strive to bring the best practices and the calibre of investment management normally seen in global financial centres directly to the Fraser Valley and are accountable for the results.

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.

The information contained herein is current as of March 3, 2017.

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The Charter Group consists of Mark Jasayko, Portfolio Manager, Investment Advisor, Mike Elliott, Portfolio Manager, Investment Advisor, and Laura O'Connell, Associate Investment Advisor. The Charter Group is part of TD Wealth Private Investment Advice, a division of TD Waterhouse Canada Inc. TD Waterhouse Canada Inc. is a subsidiary of The Toronto-Dominion Bank. TD Waterhouse Canada Inc. – Member of the Canadian Investor Protection Fund.