

# CHOO'S FINANCIAL INSIGHTS

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## ***Summer Outlook***

*We've now hit the peak of our longest days of the year; hopefully you are using the extra daylight to enjoy BBQs and other summer activities as planned. Our nice weather season always seems too short!*

*Now that we've made it through the first half of 2015, we may need to weather some of the Financial Market challenges ahead for the remainder of the year.*

*Let's discuss some of these issues...*

## **INVESTMENT OUTLOOK: A MID TERM REPORT**

### **Review:**

- It has been a good first half for global equities in 2015 with 76% of country benchmarks in positive territory and a median return of 6.3%. Japan and Europe are the big winners, with Emerging Market countries predominantly pulling up the rear.
- Health Care has held the leadership position for both the U.S. and Canadian markets while Utilities has been the key laggard.
- High yield bonds have outperformed investment grade credit.
- The loonie is weaker against a broad base of major currencies. It has only strengthened against the euro, Danish kroner and Kiwi dollar.
- Commodity performance so far in 2015 has been led by the resurgence of oil. Food prices have been the laggards thus far.

## ***Outlook for the Second Half of 2015:***

### **Outlook for the second half of 2015:**

*We expect more volatility.*

#### **Why?**

- Chinese economy continues to weaken. There is a lingering concern regarding their bad loans in their banking system and the real estate bubble.
- Greece refusal to accept the IMF's bailout demands. A referendum is called for July 5 on the bailout terms. This could be a prelude to a Greece's exit from the European Union. This uncertainty will contribute to the volatility.
- Interest rate volatility was responsible for the bond sell off recently.
- Corporate earnings are uncertain.
- U.S. Treasuries are expensive.
- There are opportunities in Europe and Japan. Certainly not for the risk averse investor.
- Inflation is somewhat below expectations.
- Commodities will still face head winds.
- U.S. dollar may continue to strengthen; that's not good news for Canadian travellers to the states.
- Bank of Canada may continue to hold our interest rates steady. Not good for our dollar.

#### **What to do:**

- Be patient. Don't panic when there is market volatility. Historically, investors have a habit of selling in a panic and buying in an investment euphoria.
- Avoiding recession related drawdowns is important in preserving wealth. Presently, economic indicators place very low odds of a pending recession.
- Focus on High Quality names in volatile times. Higher-quality companies usually outperform in times of uncertainty while inexpensive higher-quality companies have outperformed by almost 400 basis points per annum over time.
- Bond volatility remains elevated. Now is NOT the time to be buying more bonds in your portfolio.
- Favour Equities relative to Bonds over the next 9 to 12 months.



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**WRAP UP**

That wraps up the investment review for the first half and an outlook for the second half.

If you have any questions at any time, please don't hesitate to contact me.

Have a great and safe summer!

From my family to yours!

Regards,

A handwritten signature in black ink, appearing to read "Raymond Choo".

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