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BANWELL FINANCIAL INC.
Integrity Competence Service

January Client Communication

Market Performance

2015 will not go down as a banner year for most investors in Canada, or globally. The Canadian market against a backdrop of weak oil and gas prices, and weak commodity prices offered the worst performance of developed markets around the globe. And the numbers are:

	2015
S&P/TSX	-11.09%
S&P 500	-0.7
Russell 2000	-5.7
MSCI World	-2.7%
MSCI EM	-17%

*** Russell 2000 is a popular measure of US small company performance. The MSCI World represents 23 developed markets around the world of mid and large capitalized companies. The MSCI EM represents 23 countries around the world that are considered to be not fully developed, or emerging markets (EM).

The Impact of Currency Moves on Investment Performance

Portfolios with global exposure benefitted from the Canadian dollar declining 16.25% (14 cents) vs the US dollar. In a declining Canadian dollar environment investors in Canada benefit from globally exposed investments that are not currency hedged. The numbers below illustrate the significant difference between pure market performance (the above numbers) and market performance in Canadian dollar terms.

	2015 CAN $
S&P/TSX	-11.09%
S&P 500	18.2
Russell 2000	12.3
MSCI World	15.8
MSCI EM	-1.1

***It is interesting to note that over the past 35 years the S&P 500 has average intra-year drops of 14.2%, but has been positive in 26 of the last 35 years.

US Federal Reserve Announced the First Rate Hike in 10 years

After much speculation, and market volatility surrounding the start of interest rate hikes the US Federal Reserve after nearly 10 years announced a rate hike on December 16th/ 15. ***What does this mean and should we be concerned?***

Typically, the first rate increase has been a signal that the economy has gained traction, and on average, asset markets have performed reasonably well in the year or two *after* the first rate hike. Consensus seems to be that against a weak global economy and low inflation, the pace of future rate increases will be gradual. It is possible that ***emerging markets*** may have a more difficult time in a tighter dollar environment.

This rate hike may also boost confidence in the U.S. economy by reassuring us that we are indeed on a path to normalization after the 2008/2009 credit crisis.

Speaking of emerging markets as it relates to investment portfolios…

> *As investment advisors we are not huge proponents of direct emerging market investing as the potential for returns has been offset by the increased volatility. We believe there are safer methods for obtaining growth, or indirectly participating in emerging markets.*
>
> *As an example* ***Brookfield Asset Management*** *is owned in the Mackenzie Ivy Foreign Equity Fund. Brookfield owns, and operates 11 toll roads in Brazil and Chile totaling over 3300km. Brookfield has been a profitable holding for Ivy, providing exposure to fast growing emerging markets, without the risk inherent in holding publicly traded assets listed on foreign exchanges.*

Active Management Providing Value During Market Volatility

We recommend money managers who provide strong participation in rising markets ***(upside capture)***, and who provide strong downside ***(downside capture)*** protection in declining markets. These characteristics will provide investors with consistent returns and seek to avoid the highest of the highs while avoiding the lowest of the lows when markets decline. Three examples…

1 Ivy Foreign Equity, as an example was positive 2.14% for 2015. Considering an appropriate benchmark for comparison is the MSCI World (-2,7%), and the S&P 500 (-.7%), last year Ivy provided investors with very good downside protection. In Canadian dollar terms Ivy gained 13% for 2015.

Although upside/downside capture is not an exact science, this is part of our criteria for recommending managers to clients. Hence the term money management is both art, and science!!

2 Mackenzie US Mid Cap *in the spirit of full disclosure is* one of our top recommended growth themes. After providing investors with one of the best risk/return profiles in its category over a ten-year period, US Mid Cap declined by 8% for 2015 against the Russell 2000 benchmark at -5.7%. The average annual return over ten-years for US Mid Cap is 10%, but even good managers have difficult years. *Both art and science…*

In Canadian dollar terms US Mid Cap gained 9% for 2015.

3 Fidelity Northstar is a global portfolio that will invest throughout the world with no constraints, and will hold both small, mid, and large capitalized companies. For the five years ending December 31st/2015 the upside capture was 97.8%. The downside capture was 58.5%.

Northstar gained 20.21% in 2015 and has a five-year average annual performance number of 15.40%. Northstar is considered to have one of the more attractive upside/downside capture profiles in the global equity category.

If we remove the positive impact of the depreciating Canadian dollar last year Northstar gained 9.6% for 2015.

Tax Free Investment Account

Although the Liberal Government has reduced the annual TFSA contribution from $10,000 to $5,500, we believe this is still an excellent long term investment vehicle, and an excellent retirement income planning tool.

Holding only low interest savings inside a TFSA long term is not the most appropriate strategy for both conservative and/or growth investors.

If you have not opened a TFSA your cumulative total contribution room is $46,500.

Notes

December 31st statements from our office will be sent out through the mail, or electronically the week of January 18th. When you have received your statement we welcome your comments, questions and are always available for telephone conversations, email, or coffee at your time and convenience.

Further to our May 2015 newsletter, RRIF Minimum Withdrawal Factors have been reduced.

Our client newsletters normally are written over the course of one to two weeks. As we write, markets continue to exhibit volatility to the downside and we feel compelled to offer comments based on the start of 2016. Active managers build portfolios one company at a time, or what is referred to as bottom up.

We take comfort in the quality of the individual holdings in our respective portfolios that have been purchased at a reasonable price, and the ability of the underlying money manager to provide downside protection.

As an example, to January 8th, the S&P 500 is negative -4.15%, and Fidelity Northstar is positive +.21%.

From all of us at BFI, we thank you for being a client, and look forward to working with you in 2016!!

BEST WISHES FOR A SAFE, HEALTHY, AND ENJOYABLE YEAR!