2nd Quarter Close: ROTATION... ROTATION!!!

A quick market comment as we close the 2nd Quarter.

ROTATION… ROTATION!!! The **Income & Growth** (formerly Balanced and Income) and **Growth/Capital Appreciation** portfolio mandates remain exposed to key tech names like Facebook and Google and Microsoft as these outstanding companies remain among the very strongest sales & profit growth franchises anywhere in the market. The month of June has seen a modest corrective move whereby investors and hedge funds/institutions are rotating out of (selling) technology, semiconductors and buying financials, biotech and to some extent nibbling at energy, a sector that remains one of the worst performing of the year. This is NORMAL & HEALTHY—it is part of what has been a common theme of "summer churn" where investors rebalance and, in some cases, sell more fully valued "winners" to rotate that capital into sectors that have been beaten down or corrected of late, such as Financials and certainly Biotech or Biopharma (health care). This rotation helps lay the foundation for the next up leg of this cycle—something we have seen over and over since this bull began in 2009.

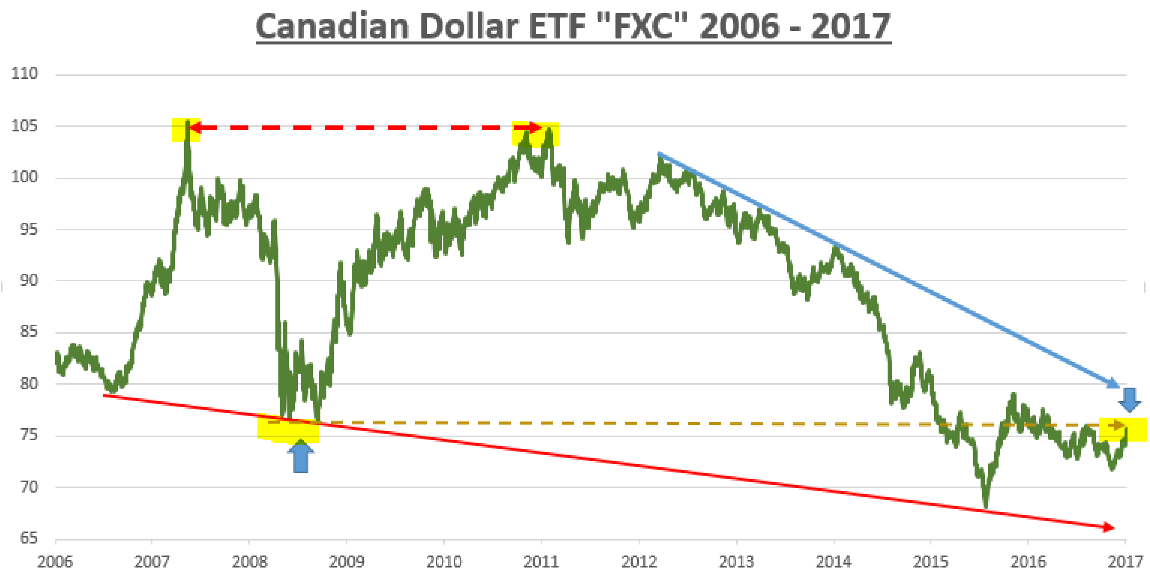
This short term dynamic in no way changes the longer term, secular bull market that remains in force. This is a theme that Jeffrey Saut, Raymond James chief investment strategist, will talk about at length in his Vancouver appearance scheduled for this September. I urge clients to RSVP and attend this great opportunity (not to mention great food and wine!). Technology remains a key leader in this long term, bull market theme, as the world becomes more connected and plugged into the Internet—this massive, overarching trend remains very powerful, and the three companies mentioned above remain among the deepest, largest, most expansive, dominant AND profitable, with growth rates that are far above the rest of the market. If the market sells them off a bit, so what?! Nothing has changed with fundamentals OR the technical, bullish (up) direction of the tech sector and the key leaders within it.

Another factor weighing a bit on portfolios at Quarter end (June) has been the rally up in the value of the Canadian dollar, from a recent low of .72 to .73 to .77 today. This is largely being fueled by short covering (shorts sell CAD contracts hoping to profit on a decline in the CAD$), as many large investors had piled into shorting the CAD$ on the way down—becoming too bearish at the recent lows—and then getting "caught" as the short term trend shifted (forcing shorts to buy back or cover their positions as CAD$ turned higher since they lose money as CAD$ turns back up…). The catalyst for this short term bounce in CAD$ is due to recent comments from the Bank of Canada about the potential for short term interest rates to RISE in Canada before or by year end. In addition, we may have seen an important low on oil prices of late near $42 a barrel. Both these factors have propelled the "Northern Peso" back to the upper end of its recent range where it is now running into very large (long term) resistance in the .77 to .79 range (see chart below).

I expect short covering to exhaust itself soon and any Bank of Canada rate hike to be fully priced in and at that point there's very little fundamental reason for the CAD$ to move higher (I remain long term bearish on CAD$). The one driving, positive factor for CAD$ would be if oil were to show a strong price move back to $55 or possibly towards $60. As I have stated before, the world remains over supplied with oil, thanks in part to the massive tight oil (shale rock) production boom in America. In other words, oil's upside is capped at $55 or so…and it would take a real decline in supply along with much bigger global demand to crank prices above $60. This seems very unlikely in the next one to two years. Thus, the CAD$ has limited upside from here in my view. Finally, I think the Bank of Canada is trying to jawbone the CAD$ higher by talking about higher interest rates, as it helps cool the crazed housing market in Canada, something they would like to achieve!
Both the **Income & Growth** and **Growth/Capital Appreciation** portfolio mandates remain solidly positive for 2017, in contrast to the TSX (Toronto) Index which is slightly down on the year so far. We remain very well diversified across multiple sectors and asset classes. Technically, strength in U.S. financials (Bank of America, JP Morgan, etc) is positive as this sector is supposed to provide the leadership in a healthy bull cycle. I will likely add to JP Morgan and Bank of America.

Finally, below are two charts to look at---one showing the longer term, BEARISH TREND in the Canadian dollar and the overhead heavy resistance (dotted line) for it and also a **chart on the biotech sector**. The biotech sector is finally breaking out after its summer 2015 peak and correction/consolidation during 2016 to 2017. This sector remains among the most attractive to me for growth opportunities given the important drug discoveries and human genome driven technology advances that many of the smaller biotech companies will use to drive value and wealth creation. For exposure here, I have a position in the Next Edge Biotech fund run by Eden Rahim. Mr. Rahim has been investing solely in this sector for 25 years or so and has an outstanding track record. He owns around 40 companies at any one time in the fund.

Stockcharts -- Courtesy of Eden Rahim:



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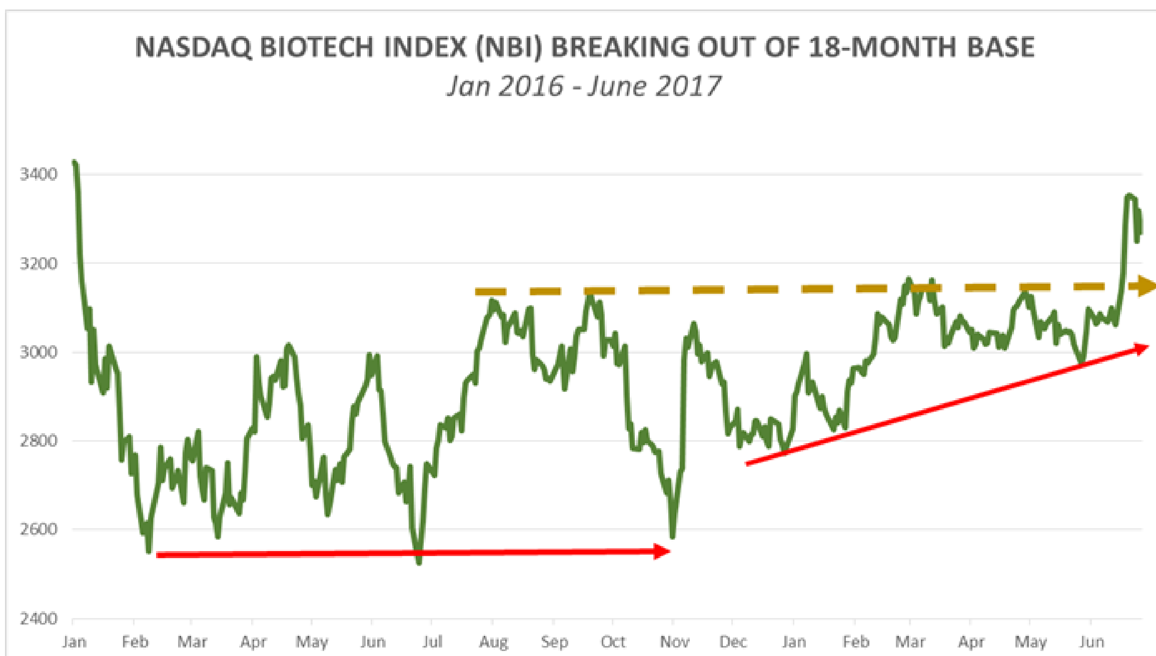

Please call or email anytime!

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