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ISSUE 30 | QUARTER 4 | 2017

Wealth *focus*

Building Wealth, Managing Risk, Securing the Future

By working together we help our affluent clients build their wealth, secure their futures and manage risk by protecting their assets so they can focus on living the lifestyle they want. We make work optional for our clients.

Interest rates and their impacts

The Bank of Canada has raised interest rates twice this year. The Federal Reserve in the US has also done so the last two Decembers. Is the time of low interest rates gone? Is it the end of the road for bonds? In a low return environment this has been an area of concern for clients lately.

Most investors understand the inverse relationship between interest rates and bond prices – when one rises the other falls. In reality it's a bit more complex than this. We highlight three reasons why bonds are still a viable part of a portfolio.

Continued on page 3…

MARKET VIEW

During the quarter, Canada raised interest rates, the Loonie charged up, investors were complacent and markets were weak however this is not out of the ordinary.

Continues on the next page…

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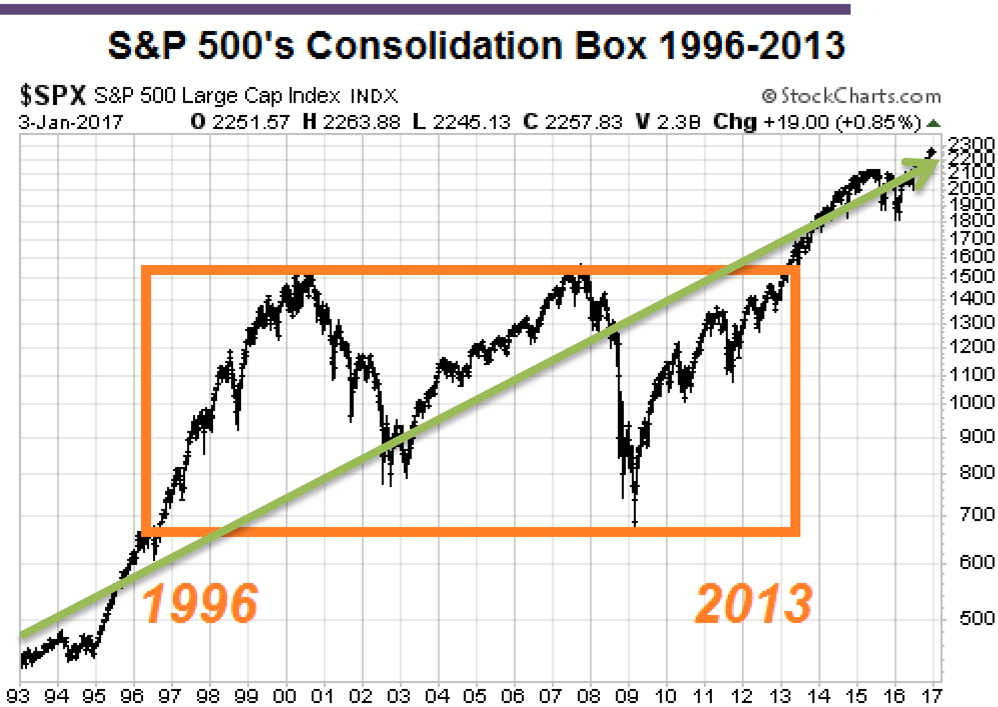
Source: Stockcharts.com

MARKET VIEW continued…

This chart to the left shows that June, August and September are some of the weakest months - this trend continued this year until September bucked the trend. Will the fall and winter continue this trend of strength? We believe it will however not without its struggles though. If we are in a bull market, it will continue to climb a wall of worry to new highs. Bear and bull markets are defined by some as a drop of 20% or more up (Bull) or down (Bear). I find this as the best definition of bull and bear markets from Barry Ritholtz of Bloomberg, "**Secular bull market:** This is an extended period of time, typically 10 to 20 years, driven by broad economic shifts that create an environment conducive to rising corporate revenues and earnings. Market volatility tends to decrease. Its most dominant feature is the increasing willingness of investors to pay more and more for a dollar of earnings as the bull market progresses. **Secular bear market:** This reflects the opposite: After an extended secular bull run, it is a period marked by increased volatility, frequent cyclical rallies and retreats in an economically challenging environment. The dominant feature is that investors become less and less willing to pay for that same dollar of earnings. The two factors missing from the percentage-only definition are the broader secular underpinnings and the idea of earnings multiple expansion or contraction."

This chart to the right suggests that we were in a consolidation period between 1996 and 2013. From 2013 and on markets have been strong and could be in the beginning stages of a secular bull market. Only time will tell. What we know from our experience is staying invested appropriate to your risk and objectives are key to achieving positive long term returns. Short term fluctuations may try to throw us off our goals so we must bring it back to whether you are on track or not.

We can't change the wind; we can only adjust our sails.



Source: Stockcharts.com

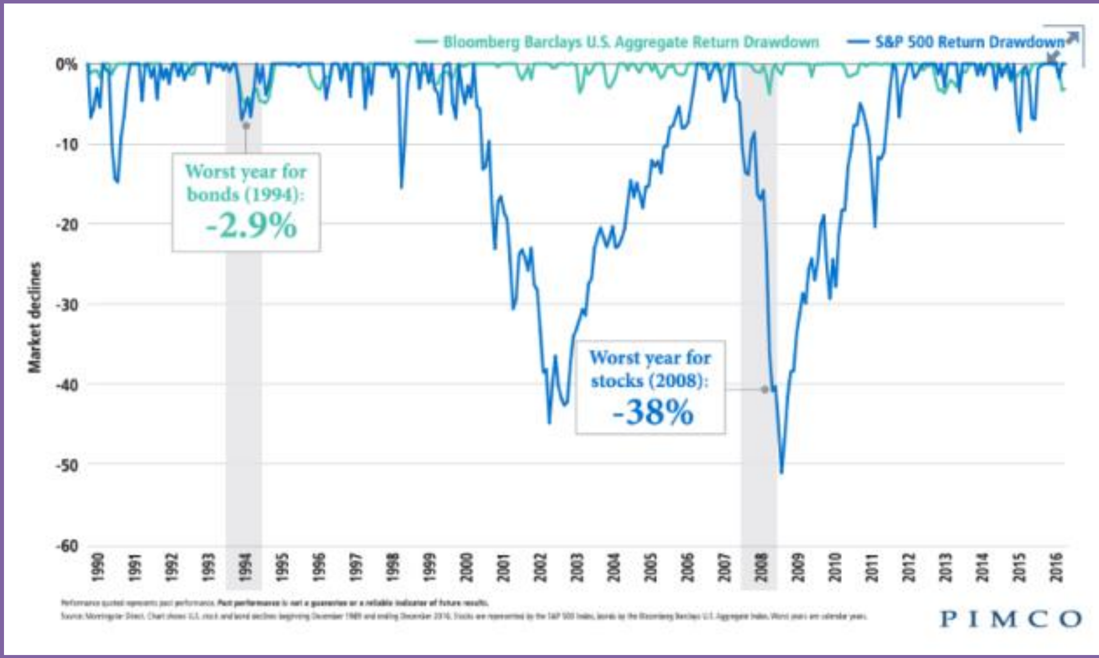
Insights moving forward:

- ✓ Active asset allocation will be key to managing risk – check your risk tolerance, has this changed?
- ✓ The focus on investing needs to be on earnings not geo-political noise
- ✓ Global recession risk remains low; however upside to growth will be challenged

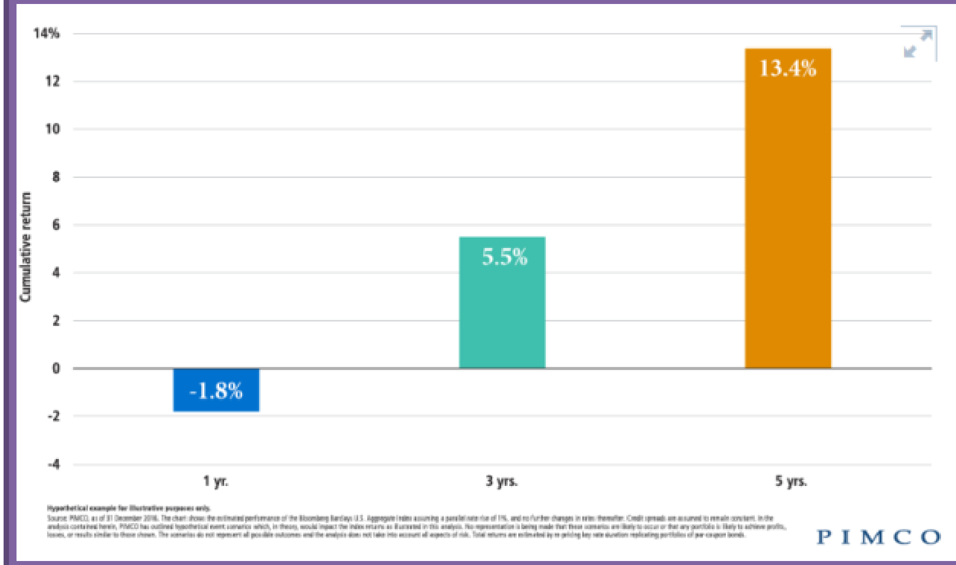
Interest rates and their impacts *cont'd…*

1) Bond declines have tended to be modest and short-lived

Bonds have historically been used for capital preservation, income and growth, and diversification due to their low-to-negative correlations to stocks – essential goals for many investors. Bonds, particularly core bonds, have also been less volatile than stocks. In fact, bond declines have been dramatically less severe than stocks and usually short-lived.



2) Rising rates build income



Because interest income is the primary driver of bond returns, the ability to reinvest into a gradually rising rate environment has the potential to help build long-term growth. When rates rise, new bonds pay a higher coupon, increasing the income investors receive. Higher rates can be a headwind for equity investors, as increased borrowing costs weigh on corporate profits. An increase in a bond portfolio's income also helps to offset the negative impact on its declining price. Over time, rising income may provide a return advantage for investors.

Check out our website (www.coastalwealth.ca) regularly for updates, articles and educational concepts to help grow and protect your wealth. It also has all the quick links to access your accounts.

OCT 26

MARK YOUR CALENDARS – October 26th at 5:30 at Crown Isle

Credential will be delivering their market outlook for the remainder of the year and the year ahead. This annual event will give you the opportunity to hear from some of our experts, listen to their insights and ask questions that are on your mind regarding the markets.

Interest rates and their impacts *cont'd…*

3) Rising rates don't impact all bonds the same

News about the bond market typically focuses on U.S. Treasuries, which tend to be the most sensitive to changing rates. In reality, the bond market is exceedingly diverse and global, and each sector or asset class responds differently to economic and market trends. Some, such as floating rate and high yield bonds, actually have tended to do well in a rising rate environment. Although a market event may temporarily depress prices across the board, skilled active bond managers can diversify a portfolio in an effort to defend against threats to capital while also seeking to capture a range of growth opportunities for their investors.

Date range	Rate hike (basis points)	Performance during past periods of Fed tightening: U.S. Treasuries	MBS	Investment grade credit	Munis	High yield	Non-U.S. developed	Emerging markets	Senior floating rate
29 March 1988 to 24 Feb 1989	325	3.92%	5.27%	5.21%	7.44%	n/a	4.83%	n/a	n/a
4 February 1994 to 1 Feb 1995	300	-2.69%	-0.49%	-3.93%	-3.56%	-1.74%	-3.55%	-21.70%	n/a
30 June 1999 to 16 May 2000	175	3.27%	2.27%	0.10%	-0.16%	-2.27%	5.07%	14.92%	n/a
30 June 2004 to 29 Jun 2006	425	5.41%	6.80%	5.85%	9.30%	14.88%	9.49%	25.44%	12.38%

As of 30 September 2016.

Source: BofA Merrill Lynch U.S. Treasury Master Index; Barclays U.S. Agency Fixed Rate MBS Index; Barclays U.S. Credit Index; Barclays Municipal Index; Barclays U.S. High Yield 1% Issuer Cap Index; JP Morgan GBI Global Ex-U.S. USD Hedged Index; JP Morgan EMBI Global Index (measures external debt); Credit Suisse Institutional Leveraged Loan Index. The high yield, EM and senior floating rate indexes did not exist during periods marked n/a. Non-U.S. developed data is through the nearest month end.

COMMUINTY CORNER

Rotary Ryder Cup

In August, we helped organize a day of fun, fellowship, and fundraising for the 6 local rotary clubs brining an event back to life. The event held at Crown Isle raised $6,000 for local projects in the Comox Valley and Campbell River as well as providing approximately 5,000 vaccinations to eradicate polio around the globe.

Thank you to all our sponsors and community partners for making this a success.

Comox Valley Community Foundation

Matt was recently appointed to the board of directors of the Comox Valley Community Foundation. Since 1996, , the foundation has returned more than $2 million to the community in grants, scholarships and bursaries for students and investment returns to those organizations that entrust their funds with us. And this will keep growing!

Matt is looking forward to making a positive impact and giving back to the community in this new capacity.

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