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**CINDY BOURY PRIVATE WEALTH MANAGEMENT**

## Inside This Issue



## Communication

One of the cornerstones of our 2016 plan is a commitment to enhanced communication with the wonderful clients we serve. We believe it is one of the most important things that we can do to add value for you. This edition of our quarterly newsletter is the inaugural step. As we move through the year we will be offering a new series of educational meetings and seminars on a variety of topics. We'll continue our dialogue via telephone calls, e-mails and in face-to-face meetings. Finally, we're working on delivering more written communication delivered on multiple platforms.

As always, we welcome your feedback. So please drop us a line or give us a call to share what you would like to see in this area and we'll do our best to integrate your ideas into our plans. So let's get started.

## WHAT'S GOING ON?

In the spring of 1971 the late, great soul singer Marvin Gaye released "What's Going On?", one of the most critically acclaimed albums of all time. Major themes included concern about the state of politics, social unrest, the economy, war and the environment. It seems not much has changed in the 45 years since as we find ourselves confronted by many of the same issues today.

In the following pages, we'll look at some of the significant concerns facing investors right now and share perspectives not widely reported in the media. The recent volatility and declines in stock prices from late December until mid-February have caused many to worry that markets may be signalling a recession in the near future. So what are these big worries? The following list is not exhaustive but captures items that we think are on the minds of investors':

1) Falling oil prices and the implications for growth, plus the vulnerability of the banks to energy related lending
2) Slowing growth in China
3) Political uncertainty in the United States and the implications of Great Britain possibly leaving the European Union
4) Central bank interest rate policies
5) War and terrorism

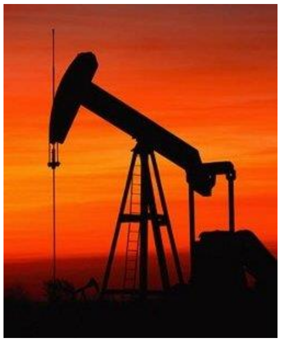
While we don't claim to have all the answers, we do have access to tremendous resources and focus a great deal of our time every day trying to understand and anticipate what current developments mean in relation to your investments.

1) Falling oil prices and the implications for growth, plus the vulnerability of the banks to energy related lending

In the minds of many people the decline in oil prices is being driven by weak growth in China. We don't agree and in fact, according to the International Energy Agency, oil demand in China grew by 5.38% last year and is forecast to continue growing in 2016. ***We believe that the drop in the price of oil has been primarily a supply issue driven by growth in U.S. production.***

According to the Energy Information Administration, U.S. oil production averaged roughly five million barrels per day from 2002 until 2008. The advent of hydraulic fracturing unlocked huge new reserves and U.S. production almost doubled to peak at 9.6 million barrels per day by June 2015. This led to a build in the stockpiles of oil and we all know what happens when there is too much supply and not enough demand. So what has happened since June 2015?

Wood Mackenzie, the energy research consultancy, and Barclays Capital Inc., the investment bank, reported in January 2016 that there has been a total of $380 billion of energy projects cancelled since late 2014, with another $170 billion at risk due to the low price of oil. We have seen U.S. production drop by approximately 600,000 barrels per day to the end of February and producers everywhere are finally considering steps to stabilize and increase oil prices. There is an old adage that "the best cure for low prices is low prices".

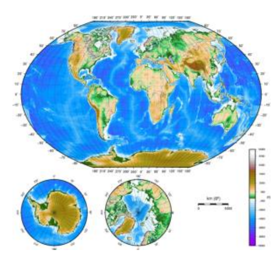


When we look at the risks to the banks due to energy related lending, we see that different banks have different levels of exposure, but this is a small part of the total loans outstanding. Raymond James analysts, in a report released on March 4 reported that among the Canadian banks the exposure to both mining and energy loans range from a low of 1.3% to a high of 8.5% with an average exposure of only 3.8% of total loans outstanding. Moody's reported on February 5 that the big six U.S. banks have energy lending ranges from 3.5% to 8% of total loans. We also have to remember that many of those loans would be to very solid companies such as Suncor and Chevron. We also take comfort in knowing that banks all around the world have accumulated massive loan loss reserves since 2009. So we believe the fear of banking sector losses may be greatly overdone.

The final point we would make is that historically, lower energy prices have been very good for growth and stock markets. Consumers, business and governments all benefit from reduced costs. Generally, when oil prices increase, stock markets decline and vice-versa. Why has the opposite been happening lately? We think that in addition to worries about growth, the rapid fall in oil prices had the effect of hurting producers while not enough time has passed for the full benefits to be felt by consumers. There is also the possibility that sovereign wealth funds and other parties with large energy investments have been forced to sell shares of companies in other industries resulting in a broader decline in stocks. In summary, we think that over time, as equilibrium in oil pricing is found, the benefits of lower prices will start to be felt in the overall economy in a much greater way than they have so far.

**2) Slowing growth in China**

Much has been said in the media about a slowdown in China. We know this is happening and acknowledge that there are many challenges ahead as China transitions from a manufacturing and export driven economy to one that is more self-sufficient due to growth in consumption and services. But the rate of growth in China does not adequately tell the story. Let's compare the year 2005 with 2015. According to the World Bank, GDP in China grew at a 16.8% rate in 2005. In 2015 growth was only 7.3%. ***However, if we look at total economic output, the Chinese economy increased by about $327 billion in 2005 and by a whopping $860 billion last year!*** This is because of the compounding effect that has seen the total size of the Chinese economy grow from $2.27 trillion in 2005 to $10.35 trillion last year. It is natural that the rate of change will slow as the total output grows larger.



There is no secret that China has significant problems including local government, business and individual debt, market instability, capital outflows, opaque financial structures and environmental damage just to name a few. But we should not forget that China also has a number of strengths including foreign exchange reserves estimated at $3.2 trillion, a highly educated and industrious population and a government that has facilitated an increase in living standards for the greatest number of people in the shortest period of time that the world has ever seen!

**3) Political uncertainty in the United States and the implications of Great Britain leaving the European Union**

The U.S. presidential nomination process is controversial to say the least and we don't feel the need to say much because everyone else has said enough! We believe that in spite of all the rhetoric, when all is said and done the new president, congress and the courts will chart a reasonable course for the U.S. We confess that we take much of what is said in campaigns with a grain of salt.

We are concerned at the prospect of Great Britain voting to leave the European Union. We know that markets don't like uncertainty and think that a "yes" vote could be poorly received.

We continue to watch closely as events unfold but would remind readers that the media often likes to seize upon stories such as this in an effort to grab people's attention. Think Y2K crisis, debt ceiling, Greece etc., etc., etc...

**4) Central bank interest rate policies**

For the first time since the immediate aftermath of the 2008 financial crisis we have seen central banks around the world all using low interest rates and unconventional policies in an effort to stimulate growth. We will continue to watch their actions very closely for clues about the direction of interest rates, the economy and stock markets. More about that will follow in the summary.

**5) War and terrorism**

The scourge of war and terrorism continue to haunt the world with the effects being felt in many countries. While we are encouraged by the recent "cessation of hostilities" in Syria and think that this conflict must come to an end, we have no illusions about the difficulties ahead or the dangers posed by terrorists and rogue states in many parts of the world. While much of what happens can only be characterized as heart-breaking, we believe that most people everywhere will do their best to carry on and provide value in the marketplace and that is what ultimately drives growth and stock prices higher.

## Summary

After many years in the investment business, one of the things that we have noticed is that markets often seem to do what the least number of people expect. Volatility often seems to come from wide swings in investor sentiment. The real economy fluctuates much less and generally moves at a much more moderate pace than sentiment or the stock market. Our disciplined approach protects us from getting caught up in emotional swings that we so often see.

We would guess that not many people believe that the economy and stock market will have a strong year in 2016 but we can see a scenario where just such an outcome is possible. Monetary and fiscal stimulus around the world along with lower energy and commodity prices could combine to drive growth in 2016. The data coming from the U.S. has been mostly positive while Europe seems to be making some progress, albeit very slowly. Japan has continued its long battle with stagnation and many of the emerging economies are struggling. We've looked at China and while we believe it will continue to face headwinds, we should not ignore the potential for significant growth there. India has emerged as one of the bright spots in the world and while energy producing countries may struggle, the consumers in the developing world should see a boost to activity.

***Canada is not an island and the effects of changes in the nature and pace of growth in the rest of the world affects us significantly.*** Our final GDP growth of 1.2% for 2015 reflects the impact of the rapid fall in commodity prices. If the worst of the declines in commodity markets are behind us, the benefits of a lower dollar for our exporters and multi-nationals as well as reduced pricing pressures in many areas of Canada’s economy should lead a modest uptick in growth this year. The good news for many of our clients is that once again B.C. is forecast to lead the country in growth this year.

We are optimistic on markets for the longer term if for no other reason than the fact that historically markets go up in roughly 70% of annual periods and the reward for holding interest bearing securities is so low. However, given the many sources of risk present we are maintaining somewhat higher than normal cash balances in accounts. Lower markets recently have presented us with better value, particularly in blue-chip Canadian companies. We will continue to be disciplined and search for great investments to build your long term wealth.

### HELPING FAMILY and FRIENDS

People have asked us if we are taking on new clients and if so how might they introduce family or friends to us. The answer to the first part of the question is an emphatic "yes" while the means of figuring out the "who" and "how" needs a bit more explanation.
We are willing to help anyone that you want to introduce to us and promise to give our best advice even if that excludes us. There are people who are a perfect fit for our service and there are people that may not presently be in a position to invest with us. Regardless, we value the trust placed in us and will make every effort to find the right approach for everyone who is introduced to us. We will always do everything we can, in a sensitive and respectful way to ensure that those who put their credibility on the line for us will be glad they did. We always want to make our clients and friends look good!

To those who have given us an introduction in the past, *thank you!* To those who are thinking about doing so in the future, we hope this information is helpful.

### CBPWM in the COMMUNITY

One of Cindy's passions is empowering women to take their rightful place in their community and business leadership. To that end, Cindy has been actively involved in a group that mentors young businesswomen in Abbotsford.

She has always been an advocate of education. We will be offering educational sessions over the year on several topics of interest.

CBPWM along with our colleagues at Raymond James are looking forward to participating in the Chilliwack Father's Day walk/run for prostate cancer. As a group who values not only our community but our environment, we will be organizing a shore cleanup in September. Watch for details!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