



# QUARTERLY PERSPECTIVES

Summer 2018 | Volume 7 | Issue 3



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## Model Portfolios Performance Update

### US Trade War More Likely

The risks of a full blown trade war between the US and China and other countries appears to be increasing daily.

President Trump is not backing down from his tough trade stance and we think it is highly unlikely political leaders from China, or Canada, Europe, Mexico for that matter, will lose face and easily give into Trump's demands. China's Commerce Ministry spokesman, Gao Feng, said at a recent press conference that Beijing's retaliatory tariffs will become effective 'immediately' after the US acts.

A trade war between the US and China is not good for either country or markets. The China CSI 300 index has fallen over 13% in just the past month and is down -17% YTD. A slowing Chinese economy is bad news for resource heavy Canada.

The VIX ,or fear index, has jumped and given the many uncertainties we expect to see more volatility ahead.

In June we saw investors shifting to the more defensive sectors such as consumer staples, utilities, real estate and telecom.

We remain positive on equities given the positive global economic, employment and earnings data, however, there a number of indicators that we are watching closely, such as; Chinese, European and Japanese economic growth which are showing signs of softening while the US may be close to overheating, copper prices continue to fall, oil prices are spiking higher, the US yield curve is very flat and inflationary pressures are building.

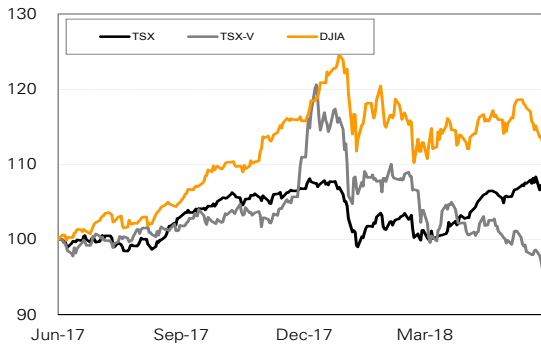
Canada is doing very well. Q2 GDP of +3% was the highest in the G7; 18 of our top 20 major industrial sectors are up, exports are at a record high, wage growth up 4% YOY in May and unemployment of 5.85% is the lowest in a decade. Higher energy prices are good news for Western Canada and the TSX. Our Canadian dollar is likely to stabilize near term as stronger oil prices and robust Canadian economic data add support.

We stay positive on the energy, technology, consumer discretionary and real estate sectors. We think the more defensive utilities, telecom, real estate, and staples sectors may do better during this volatile period and remain moderately negative on gold and materials which are hurt by the rising US dollar and interest rates.

*(cont'd on page 3)*



## Market Stats

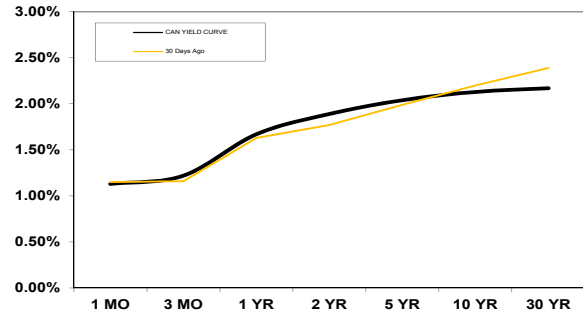


Markets		90-day % change
TSX	16,277.73	5.92
TSXV	739.96	-7.12
S&P 500	2,718.37	2.93
DJIA	24,271.41	0.70
FT-SE (U.K.)	7,636.93	8.22
Nikkei (Japan)	22,304.51	5.41
DAX (Germany)	12,306.00	1.73

Commodities (US)		90-day net change
Canadian ¢	76.14¢	-1.48¢
Gold	\$1,254.50	-\$68.30
Crude Oil	\$74.15	\$9.21
Silver	\$16.10	-\$0.16
Copper	\$2.95	-\$0.07
CRB Index	200.39	5.02
Lumber	\$569.30	\$53.60

Pricing as of Jun 29, 2018

## Bonds / Money Market



		90-day net % change
Bank Rate	1.50%	0.00%
Prime Rate	3.45%	0.00%
PI Cash Account	0.25%	0.00%
3 Month T-Bill	1.26%	0.16%
6 Month T-Bill	1.49%	0.20%
12 Month T-Bill	1.72%	0.12%
30 day Bankers' Acceptance	1.60%	0.18%
90 day Bankers' Acceptance	1.73%	0.18%
360 day Bankers' Acceptance	2.05%	0.10%
2 year Fed. Gov't Bond	1.91%	0.14%
5 year Fed. Gov't Bond	2.07%	0.10%
10 year Fed. Gov't Bond	2.17%	0.08%
30 year Fed. Gov't Bond	2.21%	-0.02%
30 year US Fed. Gov't Bond	2.99%	0.02%

Pricing as of Jun 29, 2018

## Insurance & Estate Planning

### Introducing Manulife Par: A New Participating Whole Life Product

We are very excited to announce the launch of Manulife's new product called **Manulife Par**, a permanent participating Whole Life policy that offers early cash values without compromising long-term death benefit growth. Manulife Par includes the follow features:

#### Guarantees:

- Guaranteed Premiums (10 pay or 20 pay)
- Guaranteed Base Death Benefit
- Guaranteed Cash Values

#### Dividends Options:

- Dividends can be used to purchase additional paid-up insurance, which can also earn dividends or
- Dividends can be paid out to the client

The initial dividend rate for Manulife Par is **6.25%**! This rate is locked in until August 31, 2019.

Participating Whole Life policies participate in the surplus earnings of the insurance company in the form of dividends which are paid to policy holders. Non-participating policies do not enjoy the added benefit of dividends. For more information about Manulife Par's dividend rate please click [here](#).

(cont'd on page 5)

## Wealth Management (cont'd)

### Shift to defensive sectors positive for PI Dividend Growth Portfolio

June saw a marked improvement in the more defensive utilities, real estate, consumer staples and telecom sectors and helped push our PI Dividend Growth portfolio higher by +2.49%. The PI Canadian Equity portfolio recorded a gain of +1.15% in June, slightly below our benchmark due to our lower resource weighting. The most growth oriented portfolio, the PI Focus 15 portfolio, gave a little back in June with a decline of -1.25% after a very substantial +6.25% return in May. Year to date all of our portfolios continue to outperform their benchmarks.

#### PI Dividend Growth Portfolio + 2.49% in June\*

The PI Canadian Dividend Growth Model ("PICDGM") Portfolio posted a gain of +2.49% in June compared to the portfolio's benchmark, the iShares Dividend Aristocrats Index ETF which advanced +1.84% in the month, while the S&P TSX Composite index increased by +1.69% on a total return basis.

Year to date, our portfolio has returned +0.99% on a total return basis compared to a decline of -2.07% by the investable ETF benchmark.

Since inception, September 8, 2015, the PI Canadian Dividend Growth Model portfolio has produced a total return of +40.29% vs +22.11% for the benchmark. Thus, a \$100,000 investment would now be worth \$140,290 for an annualized gain of +12.80% per year vs 7.36% per year for the benchmark.



#### PI Equity Portfolio returns 1.15% in June\*

The PI Canadian Equity Model ("PICEM") Portfolio posted a total return of +1.15% in June while its investable benchmark, the S&P TSX 60 Index ETF (XIU) advanced +1.93%, and the S&P TSX Composite total return index increased +1.69.

Year to date, the portfolio has returned +2.75% vs +1.95% for the S&P TSX 60 and +1.95% for the S&P TSX Composite (total return).

Since inception, September 8, 2015, the PI Canadian Equity Model portfolio has produced a total return of +42.48% vs +30.77% for the benchmark. Thus, a \$100,000 investment would now be worth \$142,480 for an annualized gain of +13.42% per year vs 10.01% per year for the benchmark.

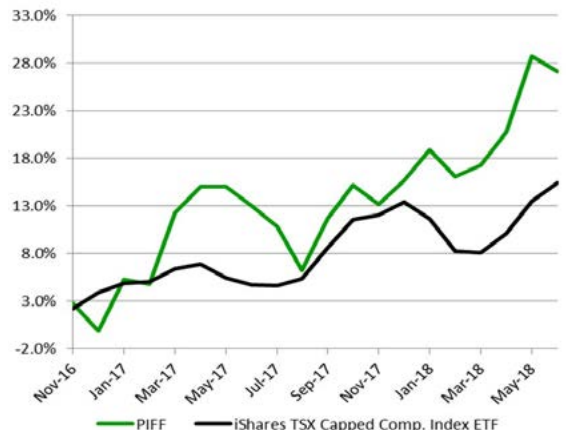


#### Focus 15 Portfolio -1.25% in June after +6.2% gain in May\*

Our most growth oriented portfolio, the PI Focus 15 ("PIFF") Growth Model Portfolio posted a total return of -1.25% in June compared to its benchmark, the iShares S&P TSX Capped Composite Index ETF which advanced +1.70%.

Year to date, the portfolio has returned +9.88, significantly outpacing its benchmark which returned +1.80% (total return).

Since inception, October 16, 2016, the PI Focus 15 Growth Model Portfolio has produced a total return of +27.11% vs +15.44% for the benchmark. Thus, a \$100,000 investment would now be worth \$127,110 for an annualized gain of +15.11% per year vs 8.79% per year for the benchmark.



\* All returns are exclusive of any fees.

## Q318 Top Equity Picks

### Second Quarter Top Picks Generate -0.4%\* Return

PI's Q218 Top picks underperformed the S&P/TSX Composite Index and the S&P/TSX Small Cap Index, whilst outperforming the S&P/TSX Venture Index in the second quarter of 2018. PI's Top Picks were down 0.4% in Q218 compared to a 5.9% increase on the S&P/TSX Composite Index, a 6.0% increase on the S&P/TSX Small Cap Index and a 7.1% decrease on the S&P/TSX Venture Index.

Our Top Picks performance reflects the impact of our commodity weighting which includes three mining sector picks, as well as one special situations pick, one technology pick, one industrial pick, and one consumer products pick.

**VersaPay Corp. (V-VPY)**, our top pick in the technology sector, was up 15% in Q218, helped by a pickup in news flow including a series of new customer wins and a partnership with First Data Corp., one of the largest payment processors in the world.

**North American Construction Group (T-NOA; NYSE-NOA)**, our Industrials Top Pick, was up 15% in Q218 and outperformed the Energy Equipment and Services Index, which was up 4.3% in the quarter. During the quarter, NOA reported strong Q1 FY18 results that beat estimates across the board. Management continues to deliver with the announcement of two additional term contracts signed resulting in a backlog of ~\$280M adding visibility to management's organic growth plan. Even after the impressive run up in stock price, we continue to believe this best-in-class operator remains undervalued at just 3.9x our FY19 EBITDA estimates.

**Canopy Growth (T-WEED; N-CGC)** was up 14.1% during the second quarter as the Company benefitted from the official legalization of recreational cannabis. Bill C-45, the Cannabis Act, received royal ascent into Canadian law in June and Canopy is expected to be the market leader in the upcoming legal market which commences on October 17th, 2018. WEED has received a mandate to provide cannabis with every province that has announced supply agreements to date.

**Jaguar Mining Inc. (T-JAG)** performed flat during the quarter as we believe the market failed to understand the positive impact of exploration success and its resulting influence of a sustainable mine life at both Turmalina and Pilar. Additionally, operations were impacted nominally due to a lack of availability of key mining supplies as a result of a nationwide trucker's union strike which has now ended.

**Alcanna Inc. (T-CLIQ)** significantly underperformed the sector, down 6.8% in the quarter, versus gains of 6.0% for Consumer Discretionary and 3.8% for Consumer Staples. The stock fell after disappointing quarterly results in both March and May. Management noted that margins will suffer as store renovations hurt same store sales and expenses rise with rent and salaries associated with their cannabis initiative.

	Rating	Target
<b>Alcanna Inc. (T-CLIQ)</b>	Buy	\$15.00
<b>Jaguar Mining Inc. (T-JAG)</b>	Buy	\$1.00
<b>North American Construction Group (T-NOA)</b>	Buy	\$11.00
<b>Organigram Holdings Inc. (V-OGI)</b>	Buy	\$7.50
<b>Otis Gold Corp. (V-OOO)</b>	Buy	\$0.60
<b>Reliq Health Technologies Inc. (V-RHT)</b>	Buy	\$3.50
<b>SSR Mining Inc. (T-SSRM)</b>	Buy	\$18.00

**Superior Gold Inc. (V-SGI)** was down 6.2% in Q218 and underperformed the GDXJ which was up 1.7%. The Company had a weak operating quarter in Q118 which resulted in Adjusted EPS and Adjusted CFPS of US\$(0.02)/sh and US\$(0.01)/sh respectively. Both metrics came in below consensus. Superior also announced that with the addition of Hermes, the mill was operating at full capacity. Despite the poor quarter, Superior had reaffirmed its 2018 guidance as grades at Plutonic are expected to pick up. Coverage of SGI has since been suspended due to departure of analyst.

Our other top pick of **Otis Gold (V-OOO)** suffered losses (38%) on the back of a lack of news flow/catalysts in Q2, specifically a delayed updated resource, which made it difficult to sustain the momentum gained in Q1 (+33%). Looking forward, we expect key catalysts this quarter including the announcement of an updated resource at the Kilgore Gold Project as well as the approval of the necessary permitting for drilling which is expected to commence in August.

*\*To calculate Top Pick performance we assume an equal weighted purchase of each of our recommendations. Top Picks are assumed sold at the end of each quarter and the total proceeds are assumed reinvested equally in each of our new Top Picks for the next quarter. Transaction fees are not included. The S&P/TSX Composite index is calculated based on a market capitalization weighting versus our Top Picks performance which uses an equal weighted percentage change that includes dividend payment.*

For our complete report, please visit: <http://www.pifinancialcorp.com/clients/reports/research/qrtly-picks/Q318.pdf>



## Insurance & Estate Planning (cont'd)

### Automatic Lifetime Deposit Option Limit

One of the most exciting aspects of Manulife PAR is that every policy is issued with a default pre-approved **Lifetime Deposit Option Limit**; the client is not required to specifically apply for this feature. This provides a great deal of flexibility for clients with fluctuating cash flow, who may want to deposit additional funds to plan at a future date to take advantage of the tax-sheltered wealth accumulation with no additional medical underwriting. There is no restriction on when the client must make these extra deposits.

This **Lifetime Deposit Option Limit** even applies when converting a Term policy (*where the term policy was issued at standard rates*). This will enable clients to transition their term insurance from mortgage protection into a retirement planning vehicle.

#### A few other exciting features of Manulife PAR include:

- Ratings are never applied to paid-up and deposit options insurance
- Non- smoking classification for juveniles
- No policy fees

**Manulife PAR is ideal for individuals** that want to accumulate wealth and defer taxes, secure collateral for a loan, compliment retirement income, or optimize estate planning. Manulife PAR is also well suited for Corporations and business owners who want to protect their business and maintain access to cash, pay off tax liability at death, pass on value accrued in a private corporation and secure collateral for a loan.

For more information, contact your insurance licensed advisor at PI Financial and click [here](#).

## Recent PI Research

### Troilus Gold Corp. (V-TLG)

Troilus Expands Drill Program to 35,000 metres (Jul 9)  
Rating: BUY; Target: \$4.10; Risk: SPECULATIVE

### Kirkland Lake Gold (T-KL)

High-Grades Found in New #4 Shaft Location (Jul 6)  
Rating: NEUTRAL; Target: \$22.75; Risk: SPECULATIVE

### Cannabis Industry Update

Alberta Recreational Cannabis Supply Agreement (Jul 5)

### Reliq Health Technologies Inc. (V-RHT)

New Customer Wins Provide Opportunity and Diversification (Jul 5)  
Rating: BUY; Target: \$2.60; Risk: SPECULATIVE

### Nighthawk Gold Corp. (T-NHK)

Exploring the Untapped Potential in Leta Arm (Jul 5)  
Rating: BUY; Target: \$1.20; Risk: SPECULATIVE

### Revival Gold Inc. (V-RVG)

Revvng Up i Idaho (Jul 4)  
Rating: BUY; Target: \$1.65; Risk: SPECULATIVE

### HIVE Blockchain Technologies (V-HIVE)

Q4 Preview (Jul 4)  
Rating: BUY; Target: \$1.30 ▼; Risk: SPECULATIVE

### Axion Ventures (V-AXV)

It's Showtime (Jul 3)  
Rating: BUY; Target: \$1.50; Risk: SPECULATIVE

### Corby Spirit and Wine Ltd. (T-CSW.a)

New U.S. distributors (Jul 3)  
Rating: NEUTRAL; Target: \$22.75; Risk: AVERAGE

### Midas Gold Corp. (T-MAX)

First Look: Permitting Update – Final ROD now expected in March 2020 (Jul 3)  
Rating: BUY; Target: \$1.50; Risk: SPECULATIVE

### Blackline Safety Corp. (V-BLN)

Nearing a Tipping Point (Jun 28)  
Rating: BUY; Target: \$7.75; Risk: ABOVE AVERAGE

**Please contact your PI Investment Advisor for the above reports.**

## PI Financial Corp.

[www.pifinancial.com](http://www.pifinancial.com)

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