

# HKM PRIVATE WEALTH PORTFOLIO UPDATE

OCTOBER 2014

*Each month we provide a summary of our current analysis and subsequent investment ideas. As not all of our picks are suitable for all clients we refrain from mentioning individual companies. If you would like to discuss the ideas further with us or determine if they are right for your portfolio please contact us and we'd be happy to talk with you.*

## TACTICAL HOLDINGS

### Oil Prices

#### Analysis

WTI is trading below \$80, prices not seen since 2010. This has driven gasoline prices below \$3.00/gallon in most of the U.S. The energy-weighted TSX corrected approximately 13% when WTI began its steep decline. In our view the sell-off was healthy and provided buying opportunities.

#### Investment Ideas

Lower gasoline prices should result in increased U.S. consumer spending as money earmarked for filling up can now be spent on other things. The timing is superb as Black Friday is near – which is effectively the start of holiday shopping in the US. With the media hype on Ebola disappearing consumers won't be scared to shop.

- Consumer Discretionary (restaurants, new cars)
- Consumer Retail
- Adding exposure to TSX & Canadian Energy Sector.

### US Housing

#### Analysis

Recapping last month's analysis on the demand for new housing:

- Low demand for housing from first time new buyers.
- High levels of student debt (recent graduates are usually first time new home buyers).

Lower demand for new housing means higher demand for rental properties. In addition, our analysis shows less building of new apartments and other rental properties. This lower supply of rentals combined with higher demand from groups not buying new homes should translate into higher rents for landlords. As the U.S. economy continues to grow at a good pace and the unemployment rate falls the chances landlords will get those higher rents increases.

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## Investment Idea

Higher demand and less supply will mean higher profits for publically traded landlords. Our investment idea carries over from last month:

- U.S. Apartment REITs

## China

### Analysis

Our analysis shows that the Chinese imported oil at the second highest level ever. We consider oil consumption a good indicator of the health of the Chinese economy as this type of data is more reliable.

### Investment Idea

We expect the world's second biggest economy is doing better than what other's think. We will continue to add exposure to China.

- Broad China exposure (through specific, vetted ETFs)

## Canadian Dollar

### Analysis

The C\$/US\$ exchange rate continued lower in October but at time of writing the C\$ had bounced back a bit against its southern neighbor. We expect only a relatively small and short counter-trend move (that is, an increase in the C\$ vs. the US\$) and then the C\$ will again fall.

### Investment Ideas

A lower C\$ provides opportunities in the following areas:

- We do not think there is a need to hedge any U.S. listed securities we may buy.
- Canadian Manufacturing

## CORE HOLDINGS

### North America

#### Analysis

U.S. and Canadian economic news has been very solid. We expect this trend will continue. The U.S. labour market has improved dramatically since the great recession so much so that the U.S. Federal Reserve stopped adding stimulus in October (in the form of Quantitative Easing). Market participants' fear of higher longer-term interest rates has not come to fruition with the Federal Reserve moving to the sidelines. In addition, low inflation means that it is also likely the Federal Reserve will keep short-term interest rates low for the foreseeable future.

#### Investment Idea

We continue to like higher exposure weighting to the U.S. markets for our clients. With our view of downward pressure on the C\$/US\$ exchange rate we will not be hedging positions.

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