

# HKM PRIVATE WEALTH PORTFOLIO UPDATE

JANUARY 2015

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.

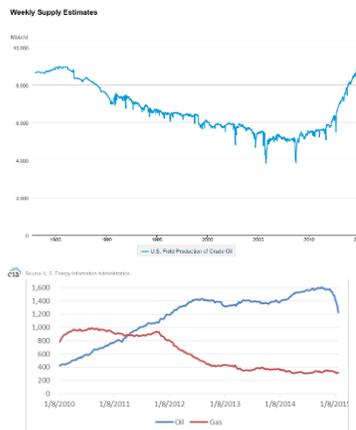
## TACTICAL HOLDINGS

### Oil Prices

#### Analysis

Oil prices closed the month lower but less of a decline than recent months. New(er) developments:

- New Saudi Arabian King reaffirmed [high levels of oil output](#) will continue. Other [OPEC countries continue to maintain supply](#).
- Russia's Putin will do whatever he wants. [He appears to have a hand in lowering interest rates](#) causing a further reduction in the Ruble and adding more economic uncertainty to the country. The parallel here is oil production could remain high in spite of lower prices and to the apparent further detriment to the country.
- US oil production continues to set historic records...even as rig counts drop. According to Baker Hughes, rigs in operation peaked last September at 1,601 and as of Jan 30, 2015 stand at 1,223. Our contention is fewer or none of these costly, higher initial production/higher decline type wells of Texas and North Dakota will come on-line at these prices. At that point there should be dramatically less production out of the US, resulting in a stable or possibly higher WTI price.
- A long refinery strike in the US would increase stockpiles.



### Investment Ideas

Rig count direction is a leading indicator for US production. As it is moving quickly in the right direction we are very close to calling a bottom on oil and investing in the sector.

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- Most Canadian energy stocks' charts look the same. Depending on a client's risk tolerance and time horizon we will buy either the broad Canadian energy market through an ETF or select individual companies.
- China's economy will also benefit from lower oil prices. Our play in China continues to be through ETFs representative of the Chinese exchange (not all China ETFs do so accurately).

## Global Uncertainties

### Analysis

Gold has seesawed back and forth from Greece elections to ECB Quantitative Easing and other various economic and geopolitical fears. However, it seems that physical demand for gold is not strong enough to convincingly push gold north of \$1300 oz. There is a trade in gold between \$1300 and \$1150 until such a time that we see strong physical demand come into the market.

### Investment Ideas

- Gold; through physical ETF or selective equities.

## Canadian Dollar

### Analysis

The Bank of Canada made a surprise and, we think, decisive move in January dropping the overnight lending rate by 25 basis points. As one would expect the C\$ sold off relative to the US\$. Clearly the Bank has signaled it wants exporting to once again become a bigger part of the economy to help smooth out energy price volatility.

### Investment Ideas

The sell-off of the C\$ has likely gone too far and could have a short-term counter rally of approximately \$0.05.

- We will hedge short-term trades where possible.

## CORE HOLDINGS

### US

#### Analysis

The US\$ is, hands-down, the strongest global currency. With the best economic performance of developed countries and looming interest rate increase it will continue to be that way.

#### Investment Ideas

- The US market has become a stock pickers market vs taking a broad view. We still will maintain some broad market exposure through ETFs but are more inclined to add exposure through companies with a majority of revenue and profit coming from the US. Consumer retail and REITs look most attractive to us at this time.

### Canada

#### Analysis

The energy sector is on the verge of rebounding. Lower interest rates will help the financial sector. Stronger Gold prices will help the materials sector.

#### Investment Ideas

- Canadian manufacturing companies, especially those with an export focus.
- Adding exposure to materials (gold).
- Revisiting Canadian banks after a 10-15% sell-off.

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