**2016 Second Quarter Summary**

The purpose of this summary is to provide you with a brief overview of the markets globally as well as highlight activities within our portfolios during the second quarter of 2016.

**Economy and Market Overview**

Without a doubt, the most prevalent market moving event of 2016 took place in Britain. On June 23rd, Brits narrowly voted to leave the European Union by a slim margin of just four percent. The exact repercussions are unknown at this time, but it can be expected that the British economy may see slower growth or a possible recession as global investors access the impact on their businesses from this decision. We anticipate continued uncertainty in the global markets during what will likely be a two year negotiation period. The impact on the Canadian and U.S. economies is presumed to be muted given direct trade with Britain is only approximately 2.5% and 3% respectively.

Other factors that influenced global markets in the last three months were slower corporate earnings growth, recovering commodity prices and the Ft. McMurray wild fires. A slowdown in corporate earnings reduced global Gross Domestic Product (GDP). GDP is key barometer of an economy as it measures the monetary value of all the finished goods and services produced within in a specific time period. The best performing markets this year have been commodity rich countries such as Canada, Russia and Brazil. However, in Canada, the modest recovery in oil prices has been offset by the impact of the Ft. McMurray wild fires. The recovery in commodities including oil and gold has helped produce positive returns in these markets, while many other markets globally have been less fortunate. See this chart for the performance of a number of important markets.

Perhaps the best reflection of a slow growth environment is the fact that a number of countries have “negative” interest rates.

For example, in Japan, their government has pushed rates below zero to encourage businesses to borrow funds to invest to help stimulate economic growth. So far, this strategy has not been successful, and their government has also been openly purchasing equity Exchange Traded Funds to support the Japanese stock market. Even with this, the Japanese stock market is down -17% year to date, so the success of this intervention is very clear. Japan is not alone, as China has also implemented this practice of purchasing Chinese companies to help prop up their stock markets. There are many reasons for this behaviour, but we suspect the primary purpose is to help protect investor confidence, which is critical. An investor who feels the value of investments is stable and growing is more likely to make additional purchases and/or borrow to invest, thereby stimulating consumption and economic growth.

With economic growth slowing, why have many stock markets including the American S&P 500 recently hit all-time highs? With near zero interest rates globally, many investors are looking for additional income from higher paying dividend stocks. The S&P is populated with some of the largest global companies in America that offer attractive dividends. These large companies are outperforming small and medium sized companies as investors scramble for yield. In Canada, an example is Bell Canada (BCE). BCE currently trades at its highest price-to-earnings multiple (a key measurement of a company's valuation) in the last 5 years despite revenue and earnings growth of just 2% and 3.5% respectively. With an attractive yield of 4.5%, investors are pushing up the price regardless of its historically high valuation.

**Portfolio Overview**

Our investment process utilizes a multi asset approach which may include Canadian equities, U.S. equities, developed International equities, emerging international equities, currencies, commodities, real estate Investment trusts (REITs), bonds, and cash. We actively measure the supply and demand for each asset class, and allocate our investments to the strongest asset classes.

For more than a year bonds have been the best performing asset class and continues to garner the greatest asset weighting in our portfolios. In March, we reduced our short term bond holdings to increase our exposure to Canadian REITS. In June, we reduced this position with the BMO Canadian Low Volatility Equity ETF.

You can view the current construction of our portfolios here.

We also created and manage a portfolio of Canadian and U.S. stocks. Portfolio turnover in Canada has been higher than average year to date. This occurs when the market direction is uncertain, or when stock leadership is changing. This is best illustrated in our Canadian portfolios. Early in 2016, for the first time in many years, gold stocks began to experience increased demand and a number of positions including Barrick Gold, Agnico Eagle Gold and Detour Gold were added. As well, as oil recovered, oil stocks were added for the first time since the fall of 2014, including Baytex Energy and Seven Generations Energy.

In the U.S. stock portfolio turnover has been average. Unlike Canada, leadership has been mixed. Former market leaders such as Netflix and Nike were replaced with Avago Technologies and Ulta Salon.

**Looking Forward**

With low interest rates globally, demand for equities remains supportive. However, most of the recent global stock market rallies have occurred with lighter volume which indicates a lack of conviction or confidence by the large institutional investors. To power the markets ahead, we'll need to see greater conviction, and an improvement in global GDP and corporate earnings. The uncertainty with Brexit may also impact investor demand. Regardless, we will continue to execute our process and monitor shifts in demand for all the asset classes, and adjust our positions accordingly.

Should you have any questions regarding your portfolio, please call us.

Sincerely,


Ferrie Petruccelli Wealth Management Group

David Ferrie, Portfolio Manager, Managing Director
T: 416-590-7667 david.ferrie@nbpcd.com

Anthony Petruccelli, Portfolio Manager, Financial Planner
T: 416-590-7675 anthony.petruccelli@nbpcd.com

Gabriela Boada, Investment Representative
T: 416-590-7637 gabriela.boada@nbpcd.com

Tim Simpson, Estate & Insurance Advisor
T: 416-359-7798 timothy.simpson@nbpcd.com