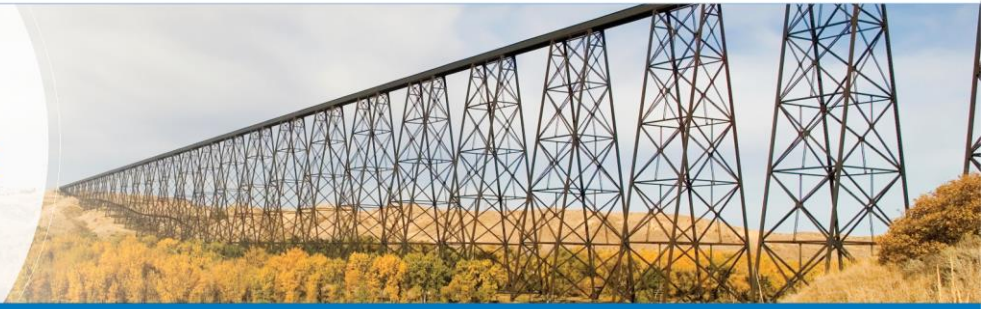


High Level Investment Report

Trusted Advice & Peace of Mind

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New Year Resolutions: Watch Your Waste

Happy 2016 to everyone! As was the case last year, this year has once again started off to be very interesting and challenging in the markets. As of January 25th, the Toronto Stock Exchange is down 6.66%, the S&P500 is down 8.16% and the MSCI World Index is down 8.52%. Our Chief Investment Strategist, Brian Belski, has recently commented that this has been the worst start to a year in the post-war era. Okay, that is enough of being a “downer!”

I am happy to say that none of my clients who have exposure to stocks are experiencing this severe decline, and are actually only modestly down this month. Admittedly, being down is not great, but to achieve growth requires exposure to fluctuating stock markets. The investment allocation in the portfolio has kept you above what could be expected with this decline in the market. The reason for this is that most of 2015 was spent becoming cautious with your portfolios, holding cash, reducing exposure to stocks, adding to bonds, while being invested in tactical fund strategies that can hedge out market risks.

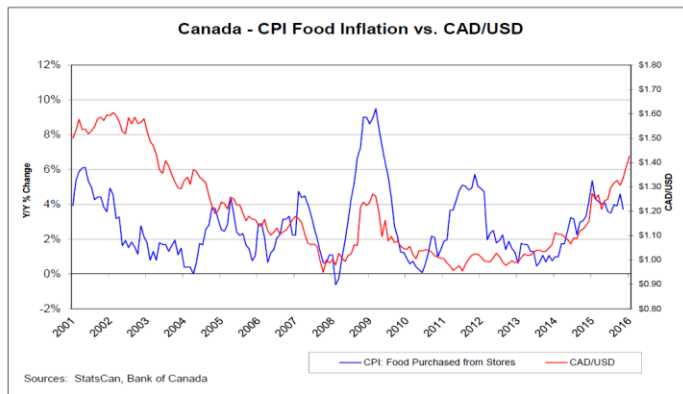
The various individual investment strategies you and my other clients own are part of an overall investment plan and not used to time Bull or Bear Markets, rather they are tools to manage risk in a portfolio. **I reiterate that I am pleased at how these strategies have helped cushion portfolio values this month, and for most of 2015.** Furthermore, for those who have friends or family who are uncertain with their investment strategy right now, I would be happy to speak with them about their situation. You can also direct them to my website at www.ryancockburn.ca, where this and past High Level Investment Reports are located in the **Publications tab**.

My article last January was titled “**New Year Resolutions: Exercise Caution in the Energy Sector.**” **My comments were of caution for the year ahead**, and to avoid temptation to jump into the sector, as there **could still be a lot of volatility and further weakness for energy in 2015.** It definitely turned out to be worse by years end, and many of the things I wrote about last year did end up being central themes.

As we are all aware of how Oil prices have dropped below \$30 per barrel this month, the one good thing about what is happening is the deflationary effect it is having at the pump. It has definitely been a while since we have seen sub-75 cents gasoline prices, and we will take them as it is helping to offset the **food inflation in Canada, which is becoming quite a concern.**

In the recent release by **Stats Canada for December 2015, fresh fruit and vegetables were up 13% from the same month a year ago! Food inflation overall was up 3.7%.** Unfortunately we don't drive as much as we eat, so **the reduction in fuel cost hasn't offset the rise in food stuffs.** As news media has already been discussing, the decline in the Canadian Dollar is driving up food inflation, as can be easily seen with the following chart comparing the rise in food inflation tied to the rise in the USD.

Exhibit 1: Canadian CPI Food Inflation vs. CAD/USD Exchange Rate



This is exactly why I have titled this report as I did - **“Watch your Waste.”** A pun on the yearly goal to slim down each New Year, it will be important theme to focus on in 2016 and likely the next few years ahead. **One of my roles, specifically for the clients who have entered retirement, is to focus on their cash flow and expenditures.** There are many more decisions to make when it's time to use the money you've saved, and my experience with clients shows it can be intimidating when making the transition into retirement or just to start drawing on investment portfolios. Even if not in retirement, the same focus should be implemented to have longer-term benefits on your overall financial planning. In my candid conversations with clients over the years I have mentioned that **my strongest belief is that inflation will be my clients biggest risk to their savings and investment strategy.** So let's dig into how we can offset this risk.

Continual money printing and loose monetary policy by governments around the world have not yet fully influenced broad inflation measures over the last few years, **but this is now finally showing up in food prices many countries,** as shown in the chart above. Canada is one country that is making global headlines. With our currency trading below 70 cents, and our dependence on imports from USA and Mexico for much of our fruit and vegetables, we are being hit with serious **currency induced inflation, which has nothing to do with economic growth.** **Inflation in the coming years will be the result of the years of money creation since 2008.**

On the topic of **Watching Your Waste**, the purpose of this article is to state the obvious, but make sure the message is delivered. **Increasing cost of living reduces the quality of life if expecting to spend the same amount of money each month to live. To maintain your lifestyle you either spend more or spend smarter.**

We are lucky to live where we do. We have access to everything we need, and could ever want. Access to money is easy, debt is easy, and so we rarely go without. We often make very spontaneous purchases, and pay a lot for convenience. Just think about how much we pay for 4 Litres of Milk at the corner station -- likely \$6 or more. **That works out to be twice as much as we pay per Litre of Gas we were actually there to buy!**

While we spend a lot of time discussing investments and portfolio returns, developing a **cash flow plan on how to spend** in times when markets are in decline and costs are above average is equally important. **Simply stated, spending smarter can maximize your overall return on your money.**

Budgeting is not an easy thing to commit to, and no matter how much money one has, we should all consider doing it. Identifying and tracking where you are spending your money is not an exciting task, but **I challenge you and say that it can be.** **Budgeting can save thousands of dollars per year,** and by doing so **can allow you to still live the lifestyle you want** to live, but be able to do it even if costs are rising by **watching your waste.**

I will share a couple suggestions, and do some quick math, as **it is quite amazing how much money can be found by finding out what you spend your money on.**

This past weekend I spent time taking notes on what certain stores charge for various types of food. I was snapping pictures with my phone of price tags at the store. Some people were looking at me like I was crazy or as if something was wrong. I think if I had started grabbing all the food off the shelves and stuffed it in my shopping cart, I would have started a bit of a panic! It was clear people are in tune to the rising costs and impact its having on our budget.

The last time I had done this in such detail was when my wife and I had our son, Hudson. Back then I assumed that Walmart must be the cheapest place to buy diapers, but Superstore was always 15%-20% cheaper at the time. Yet baby food was cheaper at Walmart by similar percentages. It was an extra trip, but for 15% savings I had no problem driving across the street, especially at the cost of those things! **By not doing this, it would be like forfeiting 15% on part of your investment account in reality.** Who would do that?

When I look at food costs, I expect to pay more for quality, particularly for produce and meat. Consensus would then say that the “higher quality stores” would be more expensive for these items. In fact it isn’t always as it seems. **Ground Beef & Sirloin Steak** shocked me. At Costco it is almost 40% cheaper than at Walmart or No Frills and I would argue much better quality. For ground beef at \$7.99/kg vs \$13.50-\$14.00/kg, this had a cost of \$18.00 for the equivalent of 4 or 5-500 gram packages that would cost \$33 for the same meat at these other stores. **Sirloin Steak** was \$12.69/kg at Costco vs prices double this at a couple of the other stores in town.

Fruit such as apples and grapes were 15%-20% cheaper at Costco as well, and quality is higher. However, some **vegetables** (mushrooms and peppers) you find 18%-20% cheaper at Walmart. **Chicken** was fairly equally priced at all stores, in fact Walmart came in the cheapest and it was name brand. **Fish** was best at Costco and Superstore by over 25% against some competitors as well. Finally, what is even more shocking was that I found 2-1.25L ketchup bottles at Costco for \$7.69, yet one bottle of same size at Walmart was \$8.97. With the amount of Ketchup my 5 year old eats, I backed up the truck on that sale!

By shopping smarter on some of the larger ticket items, **a couple can easily save \$1,500 per year if only shopping to save 15% by shopping smarter** (based on a modest \$200 per week grocery budget).

Another strategy on reducing grocery waste is to plan meals for the week, and then shopping for only what is needed. This is similar to budgeting really, only focused solely on food. This is something that my family has done for several years, and my wife uses a cool website called plantoeat.com where you can plan meals, input recipes and create shopping lists for the items needed for the week. This is a Type-A personality budgeting dream website!

When we started this a few years ago we found that we were spending almost 30% less than we were each week prior because we weren’t buying spontaneously or extra stuff we didn’t really need. **It was saving almost \$75-\$100 per week, or \$4,000 - \$5,000 in the year!**

Lastly, for those that eat-out often, more than once a week, just **reducing one of those days eating out can add up to over \$2,600 per year** (assuming a modest weekly savings of \$50 by not eating out the additional time). This is another one of the results of finding money by finding out where it is actually being spent.

Just adding up the money by not eating out as much, shopping smartly for groceries, and planning your meals **can add up to \$7,500 - \$10,000 per year!**

I haven’t even started discussing how much money is spent on other costs of living including the evaluating your phone and cable bills and packages.

So what could you do with \$7,500 - \$10,000 more per year? Paying off debt that you might have would be my first recommendation. If you don’t have debts, you could plan a nice trip? Get that new washing machine, or you could continue to save for the future when you may really need the money.

The exercise isn’t about living cheap, giving up lifestyle, or being a penny-pincher. It’s just about spending your money responsibly to make sure it lasts, because Governments are creating a lot of it, and it is eroding what your savings can buy. This is true currency induced inflation. You can **redirect wasted spending towards improving your lifestyle.** If you focused on the items above, you can turn food that you dump in the garbage, or money you overspend across the street into many well deserved things. You can actually improve the lifestyle you have, and/or improve your net worth over time by doing these few simple things.

Budgeting makes sense in tough times, but it really **makes sense to do this all the time.** It isn’t rocket science, and really is how families used to spend 40-50 years ago. The 1970’s saw inflation pick up at a time we also had an oil shock. Interest rates began to rise over the decade. I am sure that during that decade, many of these budgeting tips were standard practice in many households.

I appreciate the trust my clients have in me to safeguard their investments and years of savings generated by their hard work. My job is to help protect and grow these investments over time, but as many clients are now transitioning to spending their money, **there are ways to maximize returns on your money outside of pure investment results.** Hopefully some of the information above is helpful in that regard.

Wishing you all the best this winter, and I look forward to when we speak next.

Take care,

Ryan Cockburn