SHAH FINANCIAL PLANNING INC.

Keeping You Informed on Tax & Investments

Greetings!

Current Market Commentary

Capital markets have experienced a difficult start to 2016 with the major indices delivering negative returns (performance figures as of January 20, 2016 in respective currencies since the beginning of the year):

- ***S&P/TSX Composite:*** -7.75%
- ***S&P500:*** -7.96%
- ***Dow Jones:*** -8.09%
- ***MSCI ACWI:*** -8.70%
- ***Russell 2000:*** -12.41%

What's Going on with China?

China has some serious long-term challenges to address:

- Their growth has historically been over reliant on fixed-income property investments and exports.
- The economy is transforming to one that is consumer led which will require a very lengthy transition period with reduced economic growth prospects.

However, these challenges are pretty well understood by the market so these are not new developments. From a fundamental perspective, the sharp drop of the Chinese equity markets feels completely unwarranted. **If you look at the data, it actually appears that the Chinese economy is stabilizing rather than further deteriorating.**

The real reasons for the drop seem to be more technical in nature:

- Poorly designed "circuit breakers" and uncertainty about the expiration of insider selling rules have created volatility but appear to be resolved for the time being.

State of the U.S. Markets:

The U.S. continues to look better quarter after quarter. Although their economy wouldn't be considered great, it is definitely steady:

- ***Last Friday's employment numbers were strong*** (with 5.8 million new jobs created over the past two years, this represents the fastest growth rate since the mid-1990s).
- The U.S. has ***fixed many of their long-term structural issues*** including the over-leveraged banking sector, consumer and corporate health, eroding manufacturing base, energy dependence, etc.
- Additionally, ***the U.S. should not be materially affected by China*** as only 2% of revenues (1% of profits) of S&P500 companies are derived from China.
- With 70% of U.S GDP dependent on the U.S. consumer***, it is really hard to envision a recession given*** low oil and commodity prices, low interest rates, a strong labour market, and a lack of inflation.

Canadian Currency:

We are finally at a point where the Canadian dollar is considered undervalued but where we go from here is very difficult to predict:

- Currency is notoriously hard to predict and no one has been able to do it consistently
- Currency movement follows momentum.
- The price of oil continues to decrease which puts downward pressure on the Canadian dollar.
- The U.S. remains strong and along with the fact that the U.S. FED has the highest relative interest rates in the world, there is upward pressure on the U.S dollar.

Oil:

Oil is trading at a level last seen in 2003:

- US Crude oil production has doubled since 2010 and now there is an oversupply of oil, currently about 1.5 million barrels per day higher.
- This oversupply is expected to persist for the rest of 2016

The basic story is as long as supply will exceed demand we will remain at low levels.

A Mutual Fund investment is a long term investment! You may experience short term (unrealized) losses but that is the nature of the markets. Over the long term the mutual funds will go up, however it is not a straight line up. You will see many ups and downs and you can look towards these downs as a buying opportunity.

"**Be fearful when others are greedy, and greedy when others are fearful**" ~ Warren Buffet

Again thanks for your continue support and contribution to growth of Shah Financial Planning Inc.

We are at your service. If you require further information/assistance, please do not hesitate to contact your Financial Advisor at Shah Financial Planning Inc.

TFSA [Tax-Free Savings Account] @ 2.05%

- Head Office's Hours -

Monday to Friday ► 9:00 am to 5:00 pm
Thursday by Appointment ► 5:00 pm to 6:00 pm
February to April Saturday ► 11:00 am to 5:00 pm

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