



# INVESTORS' OUTLOOK 2018



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## PREFERRED AND PURR-FURRED SOLUTIONS



**Winston Meyer**  
**B.Sc, MBA, CIM**  
 First Vice-President  
 Investment Advisor  
 Portfolio Manager  
 905 897-3705  
 winston.meyer@cibc.ca



**Derek Small**  
**CFA, FMA, FCSI**  
 Investment Advisor  
 Portfolio Manager  
 905 897-3734  
 derek.small@cibc.ca



**Heidi Schuhmacher**  
 Financial Associate  
 905 897-3703  
 heidi.schuhmacher@cibc.ca



**Manjit Dhir,**  
**B.A., CFP, CHS**  
 Estate Planning Specialist  
 905 897-4652  
 manjit.dhir@cibc.ca



**Egor Iakunin**  
 Client Associate  
 905 897-3726  
 egor.iakunin@cibc.ca

Karen and I used to manage a large portfolio...a large portfolio of children that is. We have five offspring between us, ranging in ages from 15 to 29. Much like a financial portfolio, in the early years the approach to child rearing was to invest in tried and proven strategies, manage risk, and to understand the opportunities and challenges associated with diversified terms to maturity.

Our experience with investing has shared a similar history. When we started out, we employed proven approaches to managing our wealth. In our RRSPs, government bonds had a meaningful place and laddered maturities ensured we would benefit and be comforted by the certainty of returns for many years to come.

Fast forward to 2017 and we found both our family and financial portfolios were suffering from similar challenges. Our holdings were maturing! With both pride and sadness over the past few years we have seen three of our children reach adult maturity and leave the household portfolio. Our remaining two youthful investments are rapidly approaching their redemption dates. With the house half empty already, and the prospect of being empty nesters in a couple of years, Karen and I struggled to fill in the emotional gap caused by the departure of our irreplaceable young assets. How long must we wait for grandchildren? Similarly on the investment front, our government bonds had all but

matured, with the last of what were once long-term investments only a couple of years from being repaid. With our RRSPs targeted towards safety and income, what would we do? We wondered how long we must wait before the next generation of attractive interest rates arrive?

Fortunately, whether waiting for grandchildren, or for government bond rates to rise, there are interim solutions. Financially, we have employed the selective use of preferred shares to capture the returns we seek, albeit with a modicum of increased risk.

There's a lot available to fill in the gaps left by the void in attractive bond yields. Just like children, bonds are unique, and preferred shares should not be construed as perfect alternatives. Yet, for the current environment, they can play an important role in mitigating the struggles of a portfolio incapable of finding both yield and safety in the bond market.

So you ask, 'What about the kids? How did you replace them?' Simple, we got cats, or purr-furred investments as I like to call them. We have three to be exact. Our long-time companion, Ziggy, was joined in 2017 by two year old, Ferdinand, and a kitten, Teddy. It's a perfect solution for us until grandkids arrive. Cuddles, love, youthful disobedience, attitude, adventure, and staying out past curfew. It's like the kids never left!

## ECONOMIC OVERVIEW - OH NO, MORE CATS!

Here’s a little secret. Before we hit the ‘send’ button on our yearly prognostications, the last step we take is to compare our assumptions and forecasts with those of our research peers at CIBC and other organizations (just to see where we stand relative to the masses). Based upon the comparisons, we adjust our own recommendations, but not in the way you might think! We recognize that opinions published by major financial institutions carry great weight, and materially influence investor actions. What we treasure are the scenarios where our gut and intellect differ materially from the consensus. If our forecasts fundamentally differ from the masses, we actually increase the weighting of client holdings that reflect our conviction. Call us smart or egotistical, but we believe we’re as good as any research team. Avoiding the herd mentality, when appropriate, is where we see opportunity to invest ahead of the curve, and benefit accordingly!

So now you all are waiting to hear where the herd is pointed, and the clever manner in which your trusted Meyer Small Financial Group portfolio managers are going to lead you to wiser investment pastures. Here’s the catch, this year the investment community is like a herd of cats. There’s no consensus with which we can agree or disagree. The following graph highlights the forecast for the Canadian dollar as set out by the research departments of the five major Canadian banks on December 14, 2017.

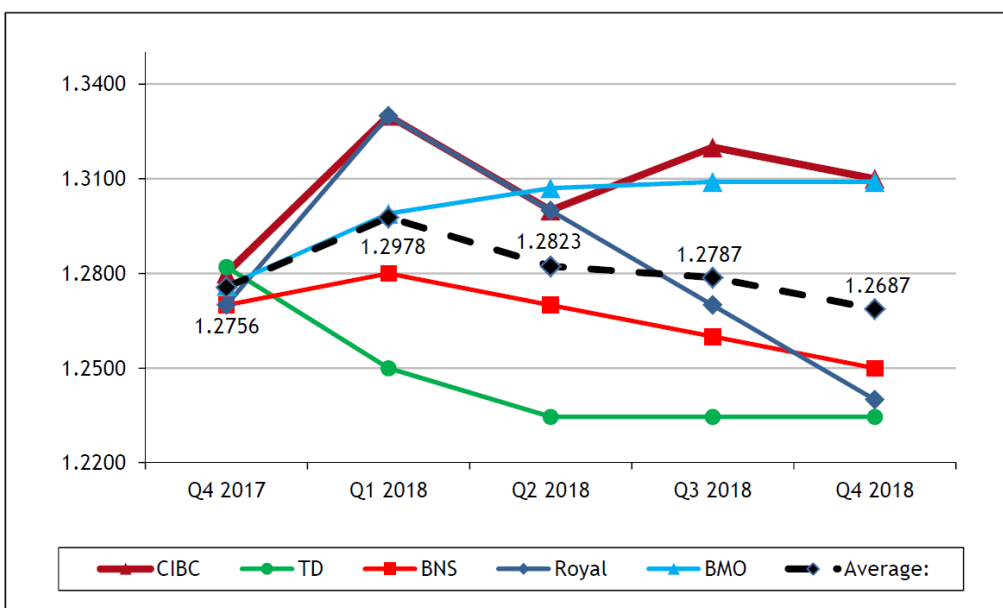
CIBC and Bank of Montreal are calling for the U.S. dollar to rise materially versus the CDN dollar. TD Bank and Bank of Nova Scotia see the U.S. dollar falling meaningfully, and, just to be different, Royal Bank sees the exchange rate surging up, then falling precipitously. Not by coincidence, if you take the average of the forecasts, the anticipation calls for virtually no change over the coming year.

Official bank opinions aside, we are calling for the Canadian dollar to have a tougher year ahead than any of the official bank forecasts. **We see the U.S. dollar ending 2018 at \$1.333 CDN, or inversely, with the Canadian dollar trading for \$0.75 U.S. at best.**

So why is there such a dispersion of opinion regarding the dollar? Our reasoning is as follows.

Bank of Canada Governor, Stephen Poloz, may have a difficult time sleeping at night because Canadian consumers have too much debt. In early September, he asserted Canadian interest rate increases would be inevitable and potentially frequent. Within hours of that speech, the Canadian dollar rocketed over 5% from its August 31 level of \$0.7895, to a peak of \$0.8291. Recognizing the impact such a move has on export markets, the Bank quickly softened its wording, suggesting that future interest rate increases, while being considered, were far from certain. Indeed, no further rate increases were implemented by yearend, and the exchange rate fell to \$0.7774 by mid-December.

5-Bank Forecast for CAD per USD



Source : CIBC Research

An exchange rate has two sides to it, so let’s take a moment to consider the drivers of the U.S. economy. Of great importance for Canadians is to understand the dynamics of the U.S. dollar versus all currencies last year. Those of you who say the Canadian dollar appreciated against the U.S. dollar in 2017 aren’t wrong, but the truth of the matter is, it is more informative when one understands that the U.S. dollar fell against every major global currency last year. Over the past twelve months, the U.S. dollar has fallen 12.3% against the Euro, 7.5% against the British Pound, 5.1% against the Japanese Yen, 4.6% against the Chinese Yuan, 7.75% against the Mexican Peso, and 4.0% against the Canadian dollar. So much for tooting our own horn!

The facts of the matter remain unchanged from last year. Canada has high consumer debt and reasonable economic growth that historically are seeds of inflation and call for rising interest rates and thus, a rising Canadian dollar. Yet the economy also has a flailing energy sector whose revenue lifeline in a low commodity price environment is engrained in a low Canadian dollar. With 30% of exports tied to the energy sector, there's no room for an \$0.80 dollar unless Canadian oil prices improve profoundly.

So what of the Canadian commodity sector, and energy in particular? On the one hand, global energy prices appear to have some stability in the range of \$50 to \$55 USD per barrel for West Texas Intermediate Crude (WTI). At that price, Canadian producers could operate profitably. The problem is that Canadian oil doesn't sell for the WTI price. As of mid-December, the price for Canada's heavy crude was priced at roughly \$33 USD per barrel, or about \$24 USD less than WTI. Because Canada's main oil export is of lower quality to WTI, it almost always trades at a discount. Adding significantly to the normal discount has been the perfect storm of pipeline disruptions that left Canadian supply bottlenecked and unable to attract decent pricing. With further infrastructure development planned in 2018 and some temporary blockages behind us, we are hopeful Canadian energy catches a better bid in the new year. Much greater efforts by all interested parties to service global markets is necessary to witness a true recovery in the Canadian oil patch.

Other Canadian commodities remain in high demand, be that base metals, agricultural goods, or forest products. Yet haunting the good news is the underlying uncertainty behind NAFTA negotiations, and the potential obstruction of the current open border between Canada and its biggest trading partner. As Canada searches to secure new markets for its

goods, a higher Canadian dollar is hardly a valued tool in the arsenal of trade weapons.

As for the Canadian consumer, it's a mixed bag. Consumer optimism is on the rebound, as employment figures improve. That said, spending on the back of home equity borrowing is clearly being stifled by a moderation in home prices. Interest rate increases were only part of the impetus behind the slowdown. The kybosh was largely driven by taxes on foreign buyers, revised regulatory policies further constraining debt limits for buyers, and a more conservative stance by banks regarding the extension of home equity mortgages and loans.

All told, the Bank of Canada sees GDP growth slowing nationally to 2.1% for 2018 and 1.5% for 2019. These figures hardly call for the sounding of inflationary alarm bells. South of the border, a lower dollar and personal and corporate tax cuts should add further fuel to economic momentum, 'Trumping' economic growth forecasts in Canada. Simply stated, their economy is running near full employment with forecast GDP growth of 2.5%. Janet Yellen, Chair of the Federal Reserve, was abundantly aware of this, and announced three interest rate increases in 2017 to stave off inflation. The Fed Fund Rate rose from 0.75% to 1.50%. It is anticipated that incoming Chair, Jerome Powell, will raise rates to 2.25% over the coming 12 months, and to 3.00% in 2019. While all this works to stem inflation, the rise in rates will also serve to put upward pressure on the U.S. dollar.

In summary, we see mixed challenges for the Bank of Canada's interest rate policy for 2017. While one or two 0.25% bumps to the bank rate are likely, they will be deliberately shadowing larger moves by the Federal Reserve. **For the investing public, we see the Canadian Prime interest rate climbing 0.50% to 3.70%, and U.S. Prime reaching 5.25%, up 0.75%, by yearend.**

## TAX TIPS FOR 2018

### TFSA Contributions

As of January 2018, the maximum cumulative contributions to a TFSA for Canadian residents 28 or older during the year, is \$57,500. Younger Canadians with a valid SIN can contribute for each year they were 18 or older using the following guideline:

2016 to 2018: \$5,500 per year  
 2015: \$10,000  
 2013 to 2014: \$5,500 per year  
 2009 to 2012: \$5,000 per year

### RRSP Contribution Limits

Your RRSP deduction and contribution limit is 18% of your earned income from the previous year, to a maximum as set out by the government each year. Unused contributions are carried forward each year, so if you did not maximize your RRSPs in the past, you can add the unused amount to this year's limit.

2017: \$26,010  
 2018: \$26,230

## A BITCOIN OF ADVICE

As much as we try not to waste verbiage on investment themes we are avoiding, given the frequency of enquiries surrounding Bitcoin, we felt compelled to provide a brief commentary. For those who aren't familiar, bitcoin is a digital currency, which uses encryption techniques to ensure the generation of currency units is regulated and that the transfer of funds is verified and secure. Unique to this currency, is that it operates outside of the conventional banking system.

At first glance, the attractions of Bitcoin are clear. It offers a global currency capable of settling transactions instantly, without the fees and reporting regulations associated with a regulated banking system. Some would argue Bitcoin has the potential to supplant gold or the U.S. dollar as the natural hedge against inflation or global political uncertainty.

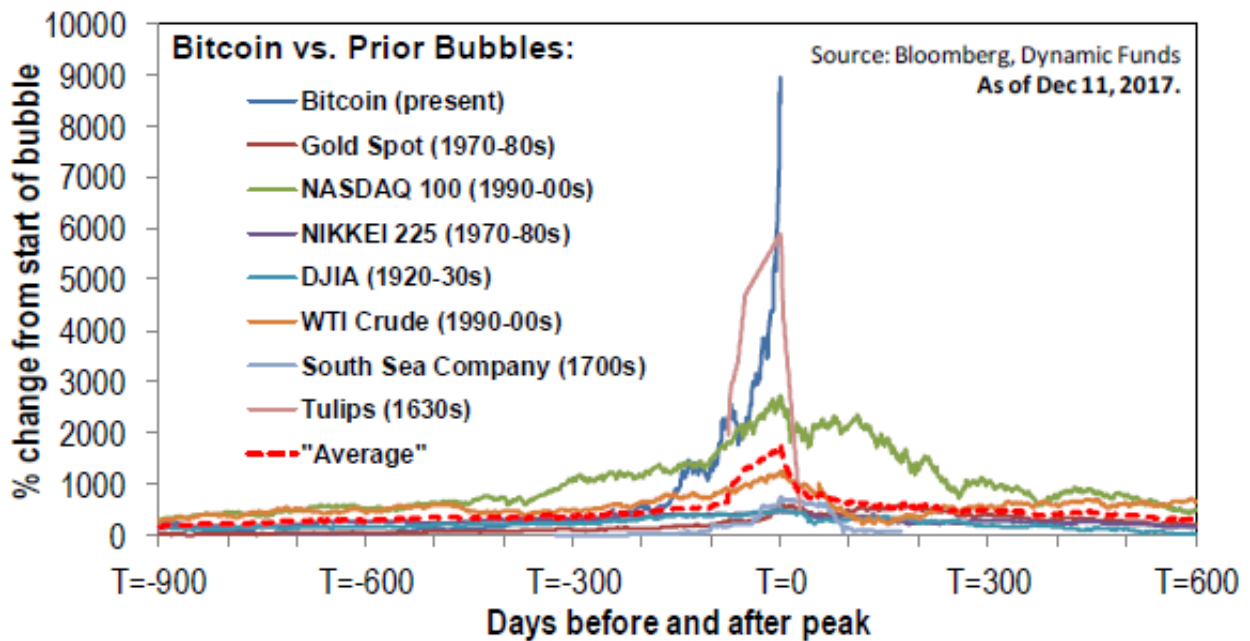
The very positive attributes of Bitcoin should also be the source of grave concern for those considering the currency. While independence from the network of central banks may appeal to those seeking a hedge from political meddling in the currency market, it is also of profound attraction to those wishing to operate outside of the purview of financial regulators. With no ability to effectively track transactions,

international regulatory bodies have no manner to intercept illegal trade, money laundering, or tax evasion.

As for a currency's value, be it real or digital, it must somehow be tied to its economic basis. The Canadian dollar, for example, fluctuates based upon the value of the Canadian economy. We understand the arguments tied to Bitcoin's simplicity of executing e-commerce transactions, and the impact that its limited supply has on price. That said, we don't pretend to understand the 9,000% increase in its deemed economic value over the past three years.

Our stance on Bitcoin is to sit back and watch. We believe there are three participants in the Bitcoin market at this time; legitimate businesses, illegitimate businesses, and uneducated speculators. Two of those three holders of Bitcoin are in the game for the currency's unintended purposes. History tells us that where criminal activity finds an operating or tax loophole, regulators and governments eventually plug the holes. As for the speculators, well, we'll let the following graph speak for itself.

**Chart of the Week: Bitcoin versus Previous Bubbles**



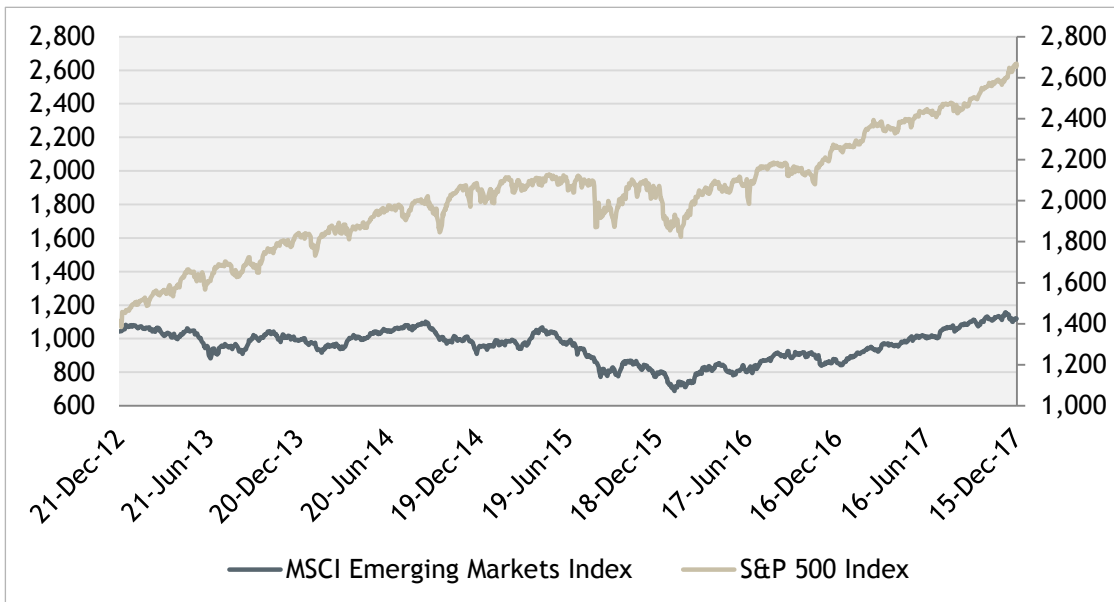
# INVESTMENT MARKET OVERVIEW & OUTLOOK

Last year, our growth recommendations returned 20.4% after accounting for currency adjustments. Our income recommendations yielded gains of 11.8%. While these present Despite the run up in 2017, we remain positive on global equity markets for the year ahead. Growing wealth in emerging markets, a low U.S. dollar, and ongoing benefits of technological innovation create continued opportunity for earnings growth. Indeed, for the first time in recent memory, all major global economies have displayed relevant economic growth. To this end, we encourage clients to incorporate international exposure to their portfolios to both diversify and enhance their return anticipation.

**For 2018, we forecast the U.S. market will moderate, but still provide meaningful upside. Using our December 15 end dates, we project the S&P 500 will advance to 2,900 (or 8.4%), while the TSX Composite will improve a more modest 5% (or 800 points) to 16,840.**

tall precedents to repeat, we optimistically accept the challenge for 2018.

Internationally, we see attractive opportunities for clients to invest in emerging market economies, and more specifically in India. Evolving accommodative political and cultural environments are conducive to business development and growing consumerism, which is heavily levered by the significant populations in many of these countries, India in particular. Although the MSCI Emerging Market Index was up a robust 31.4% in 2017, its actual total return over the past five years has been a paltry 5.6% cumulatively. By comparison, while the S&P 500 Index advanced 18.2% over the past twelve months, it has a cumulative 87.6% return over the past five years (see graph below). The relative move in valuations we consider as opening a door to opportunity overseas.



Source: Thomson Reuters



## FOR INCOME INVESTORS

In our opening commentary, Winston talked about the attractiveness of preferred shares for clients looking for yield in a low interest rate environment. Derek takes the argument one step further. What many investors do not fully appreciate is the magnitude of tax benefits associated with dividends as compared to interest income. Below is one of Derek’s favourite tables. Two particular boxes should jump out at every reader. Check out the column titled “Eligible Dividends”. For individuals with incomes below \$45,282 in 2017, the marginal tax rate on eligible dividend income is NEGATIVE! At every level of income, dividend returns are taxed at a significantly lower rate than interest income. For individuals or couples, the prudent use of preferred share income can be a powerful manner to enhance both gross and net returns.

### Tax Rates on Income – Ontario 2017

Income Range		Other	Capital	Eligible	Non-Eligible
From	To	Income	Gains	Dividends	Dividends
\$0	\$41,536	20.05%	10.03%	-6.86%	6.13%
\$41,536	\$45,282	24.15%	12.08%	-1.20%	10.93%
\$45,282	\$73,145	29.65%	14.83%	6.39%	17.37%
\$73,145	\$83,075	31.48%	15.74%	8.92%	19.51%
\$83,075	\$86,176	33.89%	16.95%	12.24%	22.33%
\$86,176	\$90,563	37.91%	18.95%	17.79%	27.03%
\$90,563	\$140,388	43.41%	21.70%	25.38%	33.46%
\$140,388	\$150,000	46.41%	23.20%	29.52%	36.97%
\$150,000	\$200,000	47.97%	23.98%	31.67%	38.80%
\$200,000	\$220,000	51.97%	25.98%	37.19%	43.48%
\$220,000	+	53.53%	26.76%	39.34%	45.30%

Source: Natixis Canada

Our Top Ten Income Focused Recommendations for 2018 bring with them an average anticipated yield of 5.55%. Each year, we add the same disclaimer, if not apology, when presenting the Top Ten Income Recommendations. As much as they are all investments we highly recommend, they are in isolation hardly representative of what we would call a “model portfolio”. All of our client income portfolios start with a heavy weighting in the conventional issuers of bonds and/or preferred shares of a more conservative nature. While we include some of these ideas in our top picks, we

understand that presenting ideas that are limited to senior corporate debt or preferred shares would hardly be enlightening for those looking for peripheral ideas to enhance yield. As such, the annual Top Ten Income Recommendations are more a reflection of a few basics and some ‘zest’ one can add to an established, diversified portfolio in a manner designed to enhance yield, address taxation and/or provide protection against a number of macro-economic risks.



### 2018 Income Focused Recommendations

	Price Dec 15th 2017	Maturity Date	Yield to Maturity	Gt'd	Credit Rating	Comments
<b>Bonds / Convertible Debs</b>						
AG Growth 5.25%	\$100.00	Dec 2022	5.25%	Yes	N/R	Convertible at \$88.15
Laurentian Bank 4.25%	\$101.10	June 2027	4.00%	Yes	BBB	Callable June 2022
<b>Preferred Shares</b>						
Brookfield Asset Mgmt pref C	\$14.45	N/A	3.85%	Yes	P-2 low	Floating Rate at 70% of the Prime
Canoe EIT pref A	\$25.35	Mar 2024	4.52%	Yes	P-2 high	Fixed Term
Great West Life T	\$24.90	Perpetual	5.17%	Yes	P-2 high	Perpetual
Kinder Morgan Pref C	\$24.99	Feb 2023*	5.20%	Yes	P-3 high	*Renewable at GOC 5yr+3.51%
<b>High Dividend Equities</b>						
Alta Gas	\$29.04	N/A	7.54%	No	N/A	Gas Distribution Utility
American Hotel Income Properties	\$9.30	N/A	8.96%	No	N/A	US Hotel REIT
Chemtrade Logistics Income Fund	\$18.14	N/A	6.36%	No	N/A	Chemicals
Hamilton Capital Global Financials Yield ETF	\$16.74	N/A	4.66%	No	N/A	Global Bank ETF
<b>Average Portfolio Yield</b>			<b>5.55%</b>			

Source: Thomson Reuters

## Average Portfolio Yield = 5.55%

*Please note, not all securities are suitable for all investors. CIBC World Markets Inc. does not have an official research opinion on all securities mentioned, and comments and opinions expressed are solely those of Winston Meyer and Derek Small. We may own stocks mentioned as recommendations, and our cost of these securities may be more or less than the price at which they are now being recommended. Common share investing should only be considered by individuals willing to assume an increased level of risk exposure. No investment in any stock is recommended without a personal consultation prior to purchase. Additional disclaimers are included at the conclusion of this document.*

Our Top Ten Income Focused Recommendations for 2018 assume conservative investors' portfolios already have an exposure to government or senior corporate debt.

### Bonds/Convertible Debentures

Laurentian Bank's 2027 4.25% debenture will be called in 2022 in all likelihood. Though not one of the Big Five banks, Laurentian offers good quality with a yield that is double that of its larger peers.

Those for whom a medium risk component is suitable can find additional yield in AG Growth's 5.25% convertible debenture. With an attractive yield and strong fundamentals surrounding the underlying common share, we see investors as being fairly compensated with the opportunity to capture additional potential gains on the appreciation of the underlying shares over the coming five years.

### Preferred Shares

To protect against rising short-term interest rates, we have presented the Brookfield Asset Management preferred C. It pays a dividend rate set at 70% of Prime. With Prime at 3.2%, the face yield works out to 2.24%. Yet, because the issue is trading at a deep discount, current investors are receiving 3.85%. As important, because of the price discount, every 0.25% increase in Prime increases the current yield by 0.30%. With two 0.25% increases in Prime expected this year, this investment's yield should climb to 4.51% by yearend, and further beyond then.

Canoe EIT Series A is a rare fixed-term preferred and our top pick as an alternative to lower yielding bank issues with equivalent credit ratings.

For clients wishing an element of pension-like income, we like to incorporate Great West Life's highly ranked perpetual preferred series T. With a 5.1% dividend and P-2H credit rating, clients can take comfort knowing a portion of their assets are

invested with a permanent yield component.

Our final preferred share is a recent fixed reset issue from Kinder Morgan, the Canadian gas and pipeline utility. It offers an attractive 5.2% yield, a palatable reset rate that includes a minimum floor rate of 5.2% if the principle is not repaid in five years.

#### High Dividend Equities

Alta Gas offers investors a 7.5% yield, backed by good industry fundamentals and a share price trading below its mean price over the past two years. We see the dividend as being secure, and the shares as having 20% upside potential over the year.

American Hotel Income Properties is a small Canadian owned REIT like company, that operates small and mid-sized hotels across the U.S. With a delicious 8.9% distribution, excellent

growth fundamentals, and significant insider buying, we see potential for high returns on all fronts.

Chemtrade Logistics hits our recommended list of investments for the third consecutive year. Having paid out 14.58% in dividends and appreciated over 10% in the past two years, we only see further upside to this holding. Strong management, timely acquisitions, and a diversified revenue model that includes both chemical by-product removal services and production and distribution in North America and internationally should continue to drive solid distributions and price accretion.

Hamilton Capital Global Financials Yield ETF offers a 4.6% distribution derived through a low fee managed pool consisting primarily of leading global banks, with lesser exposure to internationally based insurance companies and REITs.



## FOR GROWTH INVESTORS

We are approaching equity markets in 2018 with greater optimism than we had a year ago, despite the interim prolific run in all global indices. On many fronts, the fundamentals behind stock valuations have improved. We already discussed the positive impact a lower U.S. dollar has for exporters, manufacturers and multinationals. Adding to the fundamentals, is the global expansion of GDP, especially in emerging and developing countries. Of equal importance is the passing of Trump's tax reform bill.

Our 2018 Top Ten Growth Focused Recommendations highlight some of our core holdings plus several feistier picks for the year ahead. As with our Income Focused picks, these aren't all prerequisite building blocks of an equity portfolio, but rather some of the medium risk and speculative highlights that we anticipate will enhance the overall performance of an established growth portfolio.

As has always been our style, even when growth is the objective, we always seek cash flow from our portfolios. In doing so we stack the odds more favourably towards gains, without sacrificing meaningful upside. For 2018, our growth recommendations start the year with a combined dividend and call option cash flow forecast of 6.8%.

Leading off the list is Alibaba, the Chinese based largest e-commerce company in the world. What we love about established e-commerce companies is the mammoth remaining untapped markets, and the broad applicability and growing acceptance of the transactional experience by consumers. While a 34 P/E ratio normally makes us cringe, the established growth curve for this industry, and Alibaba in particular, is worth the price. Investors wishing to participate in e-commerce with less risk can supplement their acquisition of Alibaba, by

selling a \$200 call option. That tactic brings in 8% cash up front, in exchange for limiting total potential gains to 25.7% over the course of the calendar year.

American Hotel Income Properties is prominent in both our Income and Growth recommendations for 2018. Supported by a growing pool in excess of 100 hotels comprising over 11,500 rooms, AHIP has been a strong cash generator. Operating both independent locations, and branded names such as Wyndham Suites, Travelodge and Super 8, the companies focus on more modestly priced offerings is subject to lower demand volatility than luxury brands. With strong management, positive growth fundamentals, a dividend of 8.9%, and meaningful insider buying, it hits all the right buttons.

Despite the pharmaceutical industry being hammered over the past year, we confidently put forward Biogen as a top pick for 2018. The company bucked the industry trend, with its share price gaining in excess of 23% over the past twelve months. Biogen is a global pharmaceutical company focused primarily on cures and treatments for multiple sclerosis, spinal muscular dystrophy, and psoriasis. It also has collaborative agreements with other major pharmaceutical companies regarding treatments for a variety of cancers. In addition, a reasonable 14.5 P/E ratio through its mammoth cash flow, the company has the potential to make a meaningful acquisition to bolster earnings further. Our quantitative models show Biogen as the number one ranked equity for relative industry value on a quantitative valuation basis. For those wishing lower risk exposure to Biogen's \$328 price, add a January 2019 \$355 call option. That will give you \$31.80, or 9.7% of your investment back in cash up front, with potential return on your investment over the calendar year of 19.9%.

2018 Growth Focused Recommendations								
Issuer	Price 15-Dec	Dividend Yield	Call Option				Div + Option (%)	Notes
			Month	Premium (\$)	Strike	Premium (%)		
Alibaba	\$172.77	0.00%	Jan	\$13.75	\$200.00	8.0%	8.0%	e-Commerce
American Hotel Inc Prop	\$9.30	8.94%	None	\$0.00		0.0%	8.9%	Hotel REIT
Biogen	\$327.89	0.00%	Jan	\$31.80	\$355.00	9.7%	9.7%	Pharmaceuticals
CVS Health Cp	\$72.91	2.74%	Jan	\$4.30	\$80.00	5.9%	8.6%	Retail Drug/Drug Mgmt
Fairfax India Holdings Cp	\$15.02	0.00%	None	\$0.00		0.0%	0.0%	India Country Exposure
Just Energy Group	\$5.49	9.11%	None	\$0.00		0.0%	9.1%	Financial Asset Mgmt
Micron Technologies	\$42.28	0.00%	Jan	\$5.25	\$50.00	12.4%	12.4%	Semiconductor
Open Text	\$32.78	1.62%	May	\$1.10	\$35.00	3.4%	5.0%	Software/Info Mgmt
Phoenix Energy Services	\$2.17	0.00%	None	\$0.00		0.0%	0.0%	Oil Services
Visa Inc	\$113.36	0.69%	Jan	\$5.85	\$125.00	5.2%	5.8%	Financial Services
<b>Average Portfolio Yield</b>		<b>2.3%</b>				<b>4.4%</b>	<b>6.8%</b>	

Source: Thomson Reuters

If you don't recognize the name Just Energy, you're not a long-term client of The Meyer Small Financial Group. We have owned the company in greater or lesser amounts since it went public nearly 20 years ago. Just Energy now offers energy management solutions involving gas, electricity, solar and green energy to both residential and commercial customers. Though impacted by Hurricane Harvey, we see this as a temporary issue. We take comfort in the support the 9.1% dividend, noting that insiders including the company's Chief Sales Officer, recently reported buying over 200,000 shares in the open market.

Frequent visitors to the U.S. will recognize CVS Health as a leading retail drug and convenience store chain. Despite having in excess of 9,000 locations in the U.S., what you may not know is that CVS's primary revenue stream comes from the management of drug benefit plans for corporate providers and the provision of drugs to the senior community through Long-Term Care facilities. Recently, CVS came to terms on a \$77 billion merger with Aetna Inc, a major U.S. insurance company. While the jury is still out on the near-term impact the purchase price will have on CVS's balance sheet, the long-term benefits seem clear. The combined company gives CVS a clear advantage with consumers looking to save money. Operational cost savings should approach \$750 million per year, going a long way to fend off competitive pressures, even if Amazon enters the drug distribution business. Given the stock's near 15% price tumble since mid-September, we believe this is a great buying opportunity.

For specific international exposure to the economy of India, we recommend clients consider Fairfax India Holdings Corp. This is a Canadian based company that invests purely in Indian businesses. India continues to be one of, if not the fastest growing economy. With a newly elected progressive government, we see the economic expansion and development of India's economy as a multi-year theme. India is a very inward

looking economy that should continue to grow even if the developed world slows down.

Micron Technology returns to the Top Ten for a second year. Despite a doubling in price last year, many clients failed to capture the stock's upside as we were victim to selling call options at strike prices that were too low. Still, the memory chip semiconductor industry is displaying strong fundamentals that justify a commitment to this leading developer and marketer of RAND, NAND and NOR Flash memory.

Open Text is a \$9 billion market cap Canadian based developer and marketer of Enterprise Information Management software. Having recently completed a number of acquisitions, we see gross margins expanding throughout 2018 as synergies come into play.

Our small cap recommendation for 2018 is Phoenix Energy Services. As a leading innovator of horizontal and lateral drilling techniques for oil and gas reserves, the company has grown to global prominence. Prior to the collapse in global oil prices, Phoenix saw its share price top \$17. As energy exploration subsided in 2015, so too did Phoenix's fortunes. Yet, with price stability returning to the sector, exploration activity is resuming. At \$2.17, we see the shares as offering a speculative, yet profoundly attractive risk reward ratio. Supporting our thesis is the compelling degree of recent insider buying being executed by the company's executives and independent directors.

Visa Inc, is the bluechip global leader in retail electronic payment networks. With a history of consistent share price appreciation and annual dividend growth, VISA is an ideal holding for those clients seeking lower volatility long-term growth.



## CONCLUSION

The global economy appears to be accelerating across virtually all borders. While growth creates opportunity, investment markets are designed to anticipate such benefits and price opportunities accordingly. We encourage clients to take advantage of the current positive environment, but at the same time, provide a word of caution that much of the wealth generation that is anticipated to transpire is already reflected in today's pricing.

In a similar manner, while most of us are old enough to take pride in the successful growth of our children into adults, it doesn't mean it would be wise to repeat the exercise each time a child leaves the nest.

Whether considering darling investments, or darling children, know when it is the right time to move on to the next stage of the cycle. For us, that includes incorporating more income alternatives to bonds in the portfolios, and, until grandchildren arrive, more cats in the house.

Wishing you and yours the very best.

CIBC Wood Gundy



Winston Meyer B.Sc., MBA, CIM  
First Vice-President  
Investment Advisor  
Portfolio Manager



Derek Small CFA, FMA, FCSI  
Investment Advisor  
Portfolio Manager



## APPENDIX: 2017 Top Ten Income and Growth Focus Portfolio Reviews

### 2017 Top Ten Income Focused Recommendations

(all figures as of December 15th, 2017)

Security Name	Maturity	Div/Dist Yield	Cost	Price December 15th 2017	Change in Price	% Gain/ (Loss)	Total Gain (Loss)
Brookfield Floating Rate C	Anytime	4.29%	\$10.99	\$14.45	\$3.46	31.48%	35.78%
Brookfield Renewable S 9	June 2021	5.52%	\$26.02	\$25.92	(\$0.10)	-0.38%	5.14%
Canoe EIT Div Income Fund	N/A	9.93%	\$12.09	\$11.85	(\$0.24)	-1.99%	7.94%
Chemtrade Logistics Income Fd	N/A	6.38%	\$18.82	\$18.88	\$0.06	0.32%	6.70%
Enbridge Pref S N	Dec 2018	5.64%	\$17.74	\$20.42	\$2.68	15.11%	20.74%
H&R REIT 5.9%	June 2020	5.80%	\$101.75	\$104.00	\$2.25	2.21%	8.01%
Just Energy 6.75%	Dec 2021	6.72%	\$100.50	\$98.75	(\$1.75)	-1.74%	4.98%
LIQUOR STORES 4.7%	Dec 2022	4.72%	\$99.50	\$103.00	\$3.50	3.52%	8.24%
MANULIFE S 23	Mar 2022	4.85%	\$24.98	\$25.98	\$1.00	4.00%	8.86%
Shaw Communications	N/A	4.37%	\$27.13	\$29.20	\$2.07	7.63%	12.00%
<b>Overall Performance</b>		<b>5.82%</b>				<b>6.02%</b>	<b>11.84%</b>

Total 2017 Income Focused Portfolio Return = 11.84%

2017 FTSE TMX Canada Universe Bond Index Return = 4.67%

### 2017 Top Ten Growth Focused Recommendations

(all figures as of December 15th, 2017)

Issuer	Cost	Price Dec 15 2017	Change in Price	% Gain (Loss)	Yield	Total Gain	Currency Adjusted	Covered Call Call Premium	Covered Call Strategy Return
Blackstone Group	\$29.23	\$31.44	\$2.21	7.56%	7.94%	15.50%	11.87%	6.38%	18.25%
DH Corp	\$21.41	\$25.50	\$4.09	19.10%	2.24%	21.35%	21.35%	6.19%	17.51%
General Motors	\$36.24	\$40.95	\$4.71	13.00%	4.19%	17.19%	13.56%	6.91%	17.85%
Gilead	\$75.55	\$75.45	(\$0.10)	-0.13%	2.75%	2.62%	-1.01%	8.50%	7.49%
Lyondellbasell	\$88.83	\$105.99	\$17.16	19.32%	4.05%	23.37%	19.74%	6.08%	16.26%
Micron Technologies	\$20.29	\$42.31	\$22.02	108.53%	0.00%	108.53%	104.90%	15.03%	19.83%
North West Company	\$27.57	\$31.08	\$3.51	12.73%	4.64%	17.37%	17.37%	3.37%	13.20%
Teva Pharmaceutical	\$36.43	\$18.61	(\$17.82)	-48.92%	3.73%	-45.18%	-48.81%	9.06%	-39.76%
Veresen Inc (Pembina)	\$12.15	\$18.88	\$6.73	55.36%	8.23%	63.59%	63.59%	4.90%	20.12%
Winpak Ltd	\$45.68	\$46.12	\$0.44	0.96%	0.26%	1.23%	1.23%	3.50%	4.73%
<b>Overall Performance</b>				<b>18.75%</b>	<b>3.80%</b>	<b>22.56%</b>	<b>20.38%</b>	<b>6.99%</b>	<b>9.55%</b>

Total 2017 Growth Focused Portfolio Return = 20.38%

Total 2017 Growth Focused Covered Call Portfolio Return = 9.55%

2017 TSX Composite Total Return = 8.46%, S&P 500 Return (currency adjusted) = 16.54%

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