

# Bulletin – Market Conditions

**October 2017**

With markets at record highs, and little movement despite strong earnings growth, it is likely that growth is “baked in” to equity prices. Inflation is creeping up under strong economic conditions and interest rates are sure to follow.

This means that it is likely that growth equities are starting to top out. Companies like Apple and Google are largely being held by central banks – the Swiss National Bank is the world’s eighth largest equity investor; this is propping up prices.

Gold as a safe haven is relatively flat, and bonds are likely to decline as central banks start tightening to avoid overheating economies. What is an investor to do?

## **Dividend paying companies with the earnings to back them**

Companies with strong dividend growth allow investors to clip dividends (rather than capital gains) and will retain their value provided they have the earnings to back those. US dividend growers with a long track record of increasing dividends will net, well, dividends, regardless of where the baby and the bathwater go in the future. Canadian investors should hedge to remove currency risk, it is worth the cost – we have a lot of uncertainty going on in the world and uncertainty can drive oil and gold prices higher, both are drivers of CAD.

## **Floating rate preferred shares of quality companies and senior loans**

Floating rate reset preferred shares of quality companies are liquid and track interest rates. Canadian banks would be a prime example. They too pay dividends which are tax advantaged. This would reduce interest rate risk. They tend to trade near par, so while capital gains are not normally the objective with these investments, the dividends are consistent, rather low risk and backed by a quality company.

Senior loans are also floating rate, recalculated monthly or quarterly, so they do not carry interest rate risk like bonds, nor opportunity cost like GICs. As they are issued against inventory and the most senior of all debt, in the case of default usually around 90% of their value is recovered.

## **Always a growth market somewhere but beware of following the herd**

We are reaching a similar situation to Black Monday in 1987; markets are in a euphoric state of the cycle. Investors are wise to be careful. Earnings, dividends, and yields are key; capital can fly fast.

## KLT Group

13423 112 Ave.  
Surrey, BC  
V3R 2E7  
604-357-7064

[www.kltgroup.ca](http://www.kltgroup.ca)

Solving one client problem at a time –  
every day