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A LAST LOOK AT 2016:

“It is not the strongest of the species that survives, nor the most intelligent that survives. It is the one that is most adaptable to change”.

Charles Darwin.



Source: Google Images

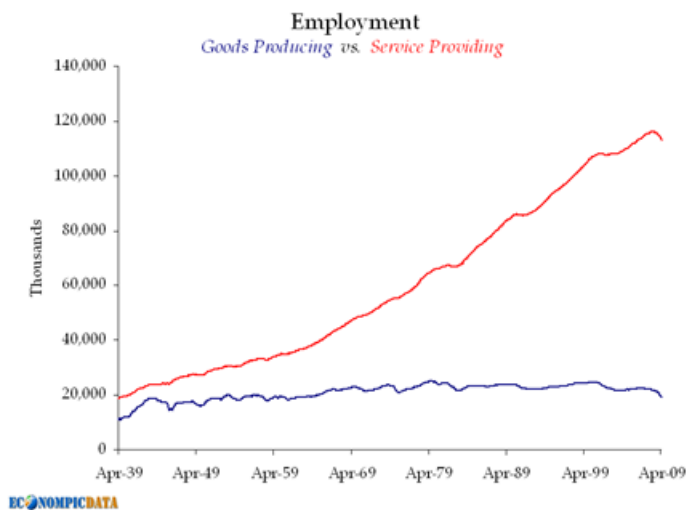
2016 has been the year of unexpected events whether it was political (Brexit, Trump, failed ceasefires) or economic (oil pricing). These outcomes have created a sense of confusion about the direction of things. Add in the continued accelerated pace of life driven by technological change (self-driving cars?) and the frustration arising from the chronic uncertainty of things is easily understood. And yet, it's not as if basic needs have changed but how we address those needs. Family, shelter, health, prosperity, security and so on continue to be critical human drivers.

The 20th century post-war model guiding global economic behaviour has been built on consumerism and the rise of the middle class. A product of this has been an enormous increase in the knowledge of things which is driving new economy service based activities in the pursuit of satisfying human needs and wants. Computer technology, medical breakthroughs and renewable energies are all examples of the evolution in the global economic model.



Source: Google Images

Yet, the direction and pace of this progress has created anxiety on some levels as participation has not been inclusive, leaving segments of the population most associated with old economy manufacturing based employment feeling marginalized and excluded from the benefits. This culminated in 2016 with the rise of the current political “populist” trend by those feeling left out of the prosperity and wishing to re-establish dominance of the old economy.



Source: U.S. Bureau of Labour Statistics, 2009

In the process of the evolution from old to new economy, globalization has concurrently been the net recipient of old economy employment such that the disaffected portion of the West’s working population has been impacted both at home and from abroad. However, in fact, new opportunities are continuously emerging and it is the lack of adaptability by old economy participants which is preventing a greater sharing in the new success. This is a human situation which cannot be legislated away and will likely remain as generational collateral damage.

This has not escaped political circles which either share this view or see an opportunity to leverage political gain by catering to this populist trend. Beyond Brexit and the U.S. presidential election outcome, political movements in France, Italy and on other continents are championing this populism. However, beyond the rhetoric is the reality that basic needs need to continue to be met, limiting the ability to absolutely replace one economic order with another. Not only would this be equally damaging, but, history has proven you can't stop progress regardless of the direction; water always finds its course.



"Open up Clayton, you knew it was inevitable."

Source: Google Images

There will be sectors and interests which will benefit from favourable political attention; for example, old economy oil and coal will briefly enjoy new support under the Trump administration. Importantly, infrastructure spending will provide an interim continuance of old economy employment for labour and goods to update aging roads, sewers, bridges, airports and other physical services. However, new economy industries are exponentially expanding and in some areas such as solar, battery, renewable and electric technologies it's possible they may eclipse current energy sources in our lifetimes.

The key lies in the **integration of old and new economies**. Traditional industries are seeing the incorporation of new technologies which are a product of the new economy. As the son of a bricklayer, I am amazed at how new building sciences, materials and techniques are being used to allow structures to be constructed faster, higher, stronger and more cost effective. This integration is being embraced by young people training in and applying new technologies as they develop their careers in traditional industries providing essential goods and services. Tremendous opportunities in the future exist with the sectors, companies and investments that can marry the two economies.



“Top deck of Superway slots into place”

Source: Google Images

This integration is what I see as exemplifying Darwin’s adapting to change. However, unfortunately, there will be those who cannot, or, will not, adapt to change.

Things to keep in mind about our financial management in 2017 and beyond as change creates not only conflict but opportunity:

- Recognize that volatility will continue to be a constant.
- Expect growth to be progressive not immediate; it is not reasonable to expect North American GDP to jump to 5 or 6% or more from 2% or less simply because of a political changing of the guard.
- A benefit of change is optimism on expectation which continues to drive the financial markets at this time. However, this will have to be proven.
- Continue to guard cash reserves as protection against continued uncertainty and as the dry powder to capitalize on market opportunities.
- Consider selectively increasing equities as growth is proven in their sectors. Not all sectors are responding to change equally; I.T., a long time favoured sector, is under threat of being overlooked in the U.S. newly elected old economy administration while new economy environmental developments are finding a home in Canada and other regions. This should temper our perspective about investments in the U.S. at least until some definable behaviour is demonstrated.
- Expect that recovery will also lead to inflation and higher interest rates which will in turn also moderate the rate of stock market growth over time.
- Remain open to both old and new economy opportunities such as infrastructure and renewable energy initiatives.
- Avoid short term reaction to volatility; allow investments to play out through cycles and avoid expectations of quick returns driven by the optics of volatility.

After such an eventful year of change, we can still pause for the holiday season with confidence that, in the balance, change will also inevitably create opportunities to support our continued financial success.

Happy holidays to all.

Writers note: The Economic Monitor prepared monthly by Dr. Martin Murenbeeld, which I have used for the charts and statistics in my regular newsletters, will no longer be available, due to his retirement. Therefore, I will begin sourcing alternative research starting 2017 to help illustrate key economic indicators, sectors and timely items.

Regards

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