THE MACKIE WEALTH GROUP

SECOND QUARTER 2015 MARKET UPDATE
JULY 2015

REVIEW OF THE FIRST HALF: IT'S A MUDDLE THROUGH YEAR SO FAR

INDEX RETURNS (LOCAL CURRENCY)	2nd QUARTER	YTD 2015	3 YR. ANNUALIZED
S&P/TSX	-2.3%	-0.5%	7.9%
S&P/TSX Venture (small cap)	-1.3%	-3.5%	-17.4%
S&P/TSX Materials	-3.0%	-0.3%	-11.3%
S&P/TSX Capped Energy (XEG)	-5.2%	-7.0%	-5.5%
S&P/TSX REIT	-1.0%	-2.1%	12.4%
S&P/TSX Financials	-2.3%	-0.5%	7.9%
S&P 500	-0.2%	0.2%	14.8%
Euro Stoxx 50	-7.4%	8.8%	14.8%
England (FTSE)	-3.7%	-0.7%	5.4%
MSCI Emerging Markets	-0.2%	1.7%	1.2%
TMX Universe Bond	-1.7%	2.4%	3.8%

COMMODITIES	2nd QUARTER	YTD 2015	PRICE USD
Natural Gas (NYMEX)	1.8%	-4.1%	$2.83
WTI Crude	14.7%	6.9%	$59.47
Gold	-1.0%	-1.1%	$1,171
Silver	-6.6%	-0.5%	$15.58

CURRENT YIELDS	CURRENT	ONE YEAR AGO
2-yr Gov Cda	0.48%	1.11%
5-yr Gov Cda	0.82%	1.53%
10-yr Gov Cda	1.68%	2.24%
2-yr Treasury US	0.64%	0.46%
5-yr Treasury US	1.65%	1.63%
10-yr Treasury US	2.35%	2.53%
CAD spot	**1.2494**	**1.0671**

Source: Richardson GMP, spindices.com, Thomson

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As at the writing of this report, Canada and US. indexes are flat to slightly negative year to date. The two key components of Canada's index, resource stocks and financials, have largely been a drag on portfolio returns. Oil and gas producer shares have been very volatile, with big moves upward early spring, and many are now approaching their lows of the last year. Banks have been drifting lower since the start of January. Winners in the Canadian market have been the companies that operate growth businesses outside of Canada, such as Manulife Financial and Magna.

Year to date performance chart TSX (blue) vs. S&P 500 (green)

Source: Yahoo.com

The price of oil dominated the direction of Canadian markets and the value of the Canadian dollar over the first half. Oil had a massive rally through the spring and dramatic weakening into the first weeks of July as inventories continue to remain high and the prospect of renewed supplies from Iran are overhanging the market. At writing, the Canadian dollar has followed the crude price back down and is now trading at just below 78 cents to the USD. Crude is down 20% from its May high point, a traditional signal of a bear market. We continue to think that oil prices will be range bound at best and we still risk a bear market for some time, given current fundamentals.

Greece again dominates news around the Eurozone: for now we think there is low risk of contagion, or that this turns into a regional financial crisis, but there will be volatility in markets as a result. Worries around Greece possibly leaving the euro and destabilizing the union and markets has triggered risk aversion among some investors, who are moving out of equities and riskier bonds, and into U.S. treasuries and German bunds again.

China has had extreme volatility in its equity markets, which is also likely creating a demand for U.S. dollars and hard assets such as global real estate. The Chinese markets have lost $3 trillion in value over the last month, with the Shanghai market going into freefall in June and dropping by over 30% in four weeks (note this is after a 135% gain on the Shanghai exchange in less than a year). More than half of the companies on the exchange are now suspended from trading to try to implement stability. Large holders and insiders are banned from selling for 6 months or more. Traders were turning to selling commodities and metals to raise cash to cover margin calls, causing spinoff volatility into other markets (Financial Times). This sell-off is putting pressure on the prices of commodities generally and affecting Canadian markets as well. For now, we think the equity rout in China will create short term noise for markets, but it is the slowing down of the Chinese economy that impacts Canada more negatively, as our economy still relies heavily on resource exports, and the price of commodities.

One year Loonie

Source: Yahoo.com

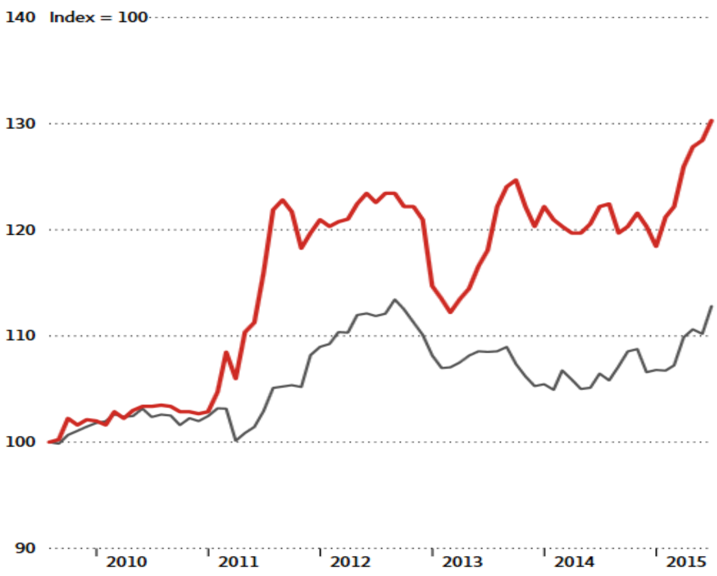
One year WTI oil price

Source: Globeandmail.com

Reasons to remain cautious on the oil industry, especially Canada's:

- The International Energy Agency said last week that the world will remain "massively oversupplied" until at least 2016, and that global demand growth is set to slow to 1.2 mmb/d next year, following a bump in demand in early 2015 to 1.8 mb/d, and averaging growth of 1.4 mmb/d on average this year. (iea.org)
- Iranian oil may come on again this summer or fall, adding to an already oversupplied market.
- Saudi and Iraq continue to produce above quota, in fact near their highest levels on record. The cartel is estimated to be still producing 1.5 mmb/d above its 30 mmb/d target. OPEC crude supply rose in June by 340,000 b/d to a three year high of 31.7 mmb/d. (iea.org)

OPEC and Saudi Oil Production growth:



Source: Globeandmail.com

- We saw US. drilling pick up once oil hit $60 this spring – rig count actually increased last week in the U.S. This is a sign that in the U.S. shale oil drillers have squeezed their costs down enough to make some plays profitable at current prices. Production could continue to increase in some plays.
- U.S. oil inventories still stand at all-time highs. American crude production is forecast to climb to a 45 year high this year, according to the Energy Information Administration.
- The U.S. is becoming increasingly independent on their own energy supply – and less dependent on Canadian imports. In fact, the U.S. has been exporting natural gas to eastern Canada, traditionally both markets for Western Canadian gas. CAPP reports that in 2007, 10.4 bcf/d of western Canadian gas was exported to the U.S. In 2007, and that has fallen to 7.4 bcf/d today.
- The U.S. is also exporting refined petroleum products at record levels, tripling over the last 10 years: 2.8 mmb/d today versus less than 1 mmb/d through the mid 2000's.
- China was an aggressive buyer for strategic oil reserves in the earlier parts of this year and late 2014 (Reuters, FT.com), but given a slowing economy, their demand outlook is uncertain.

- Canadian oil sands are globally the high cost producer of oil, and we haven't yet seen evidence that Canada can bring production costs down as much as the U.S., so our industry should continue to shrink. Most oil sands projects need long term $80+ oil for new investment. This break-even number could actually go up with potentially higher royalties, corporate taxes and carbon taxes that may be implemented.

- Canadian oil companies managed to raise $10.5 billion in the first half of 2015 ($7 billion in equity; $3 billion in debt, according to the Financial Post), but much of the capital went to shore up stressed balance sheets and support much reduced spending programs, given the cut in expected cash flow for 2015. Almost all equity financings are trading below their issue price, in many cases well below. Companies are attempting to wait out a weak period in the hopes of better pricing next year - for 2015, this is a shrinking industry with marginal or negative profitability for almost all oil and gas producer and service companies. A new Alberta political party in charge of policy direction also provides a level of uncertainty for corporate and institutional investment in the industry.

Looking ahead: themes for the second half and beyond

Canada

We still maintain our stance of our last review that Canada faces a number of headwinds that will mean our economy will struggle to grow and could even dip into recessionary periods through this year and next. Growth in Canada is largely dependent on commodity pricing. The Bank of Canada considers the risks real and significant and hoped a surprise rate cut in January would help offset the 50% cut in oil price and stimulate other parts of the economy. However, we haven't seen benefits to growth yet from the cut. If anything the Canadian economy has weakened since January. The loonie has now hit the low target many analysts were calling for: 78 cents and falling, a rate last seen during the financial crisis.

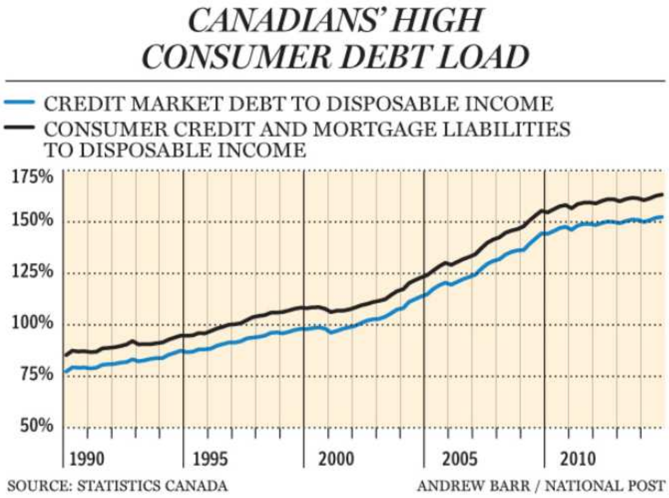
With Canada bordering on recession in the first half of 2015, the Bank of Canada again lowered overnight rates in July to 0.5%, despite the concerns around unsustainable consumer and mortgage debt growth. Governor Poloz was quoted at the end of June regarding the rate cut of January and corollary risks to the economy of consumers piling on more debt at ever cheaper cost: **"If the doctor says you need surgery to avoid death, the side effects usually don't deter you, you just go ahead and manage them somehow…. Other issues must be subordinate and I think of them as side effects."**

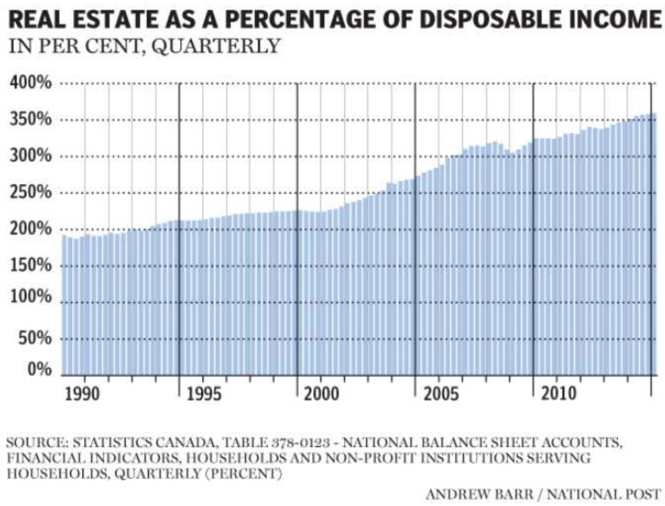
We have not seen a pick-up in export driven manufacturing, which is where the Bank was hoping slack would tighten with the cut. The issue as we see it is that much of Canada's auto manufacturing went to Mexico after the recession owing to the high Canadian dollar and higher labour costs, and it is unclear why any of it will return, given Mexico is convenient for distribution channels to the U.S. and their labour costs are still a fraction of Canadian labour costs, even with a much lower Canadian dollar. Much of the manufacturing growth in Canada since the financial crisis was connected to Alberta, as companies retooled operations to cater to the growth industry here.

- The Canadian dollar has been intrinsically tied to the oil price this year, and given our outlook on oil prices, positive absolute returns are supported by investing in (non-resource based) currencies outside Canada.

- The Canadian consumer will have to deleverage at some point and increased borrowing seems unlikely. This will lead to lower consumer demand as debt is repayed.

- Lower rates in Canada increases the fragility of the economy that has built wealth on rising house prices.





- The oil and gas industry accounted for more than half of the jobs created in Canada in early 2014 before oil price dropped. In February 2015, the Alberta government predicted that job losses in Alberta would be 31,000 in 2015 (Financial Post); it is likely to be higher than that with the oil industry still suffering with low $50 oil prices. Layoffs have continued into the summer months. **CAPP estimates that spending on exploration and development will be down 40% this year. It is unclear what industry may provide job growth to replace these lost jobs.** Construction was a big driver over the last decade, creating 62,000 new jobs in the last three years across the country, but is expected to slow as much of Canada's residential boom cools off, especially in Alberta.

United States

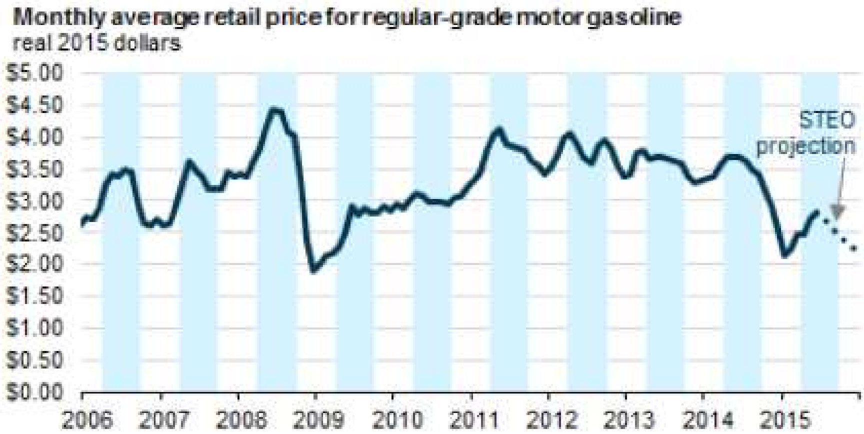
- The U.S. dollar continues to rise: the USD is up 20% against its basket of major trading partner currencies over the last twelve months. This may make stock prices struggle this year, as earnings are dampened for the many multi-nationals that make up the S&P 500

- The rising U.S. dollar could affect emerging market stability, who borrow in USD, making debt repayments more expensive if they do not have USD cash flow.

- A rise in interest rates could come this fall in the U.S. While a rate hike has been well telegraphed, this could still cause market instability as portfolios globally are rebalanced further into the higher yielding USD, and out of weaker currencies/ countries.

- The consumer continues to modestly strengthen within the U.S.

- Cheap oil is generally a benefit in the U.S. Gasoline prices in the U.S. are expected to be the lowest since 2009 this year, according to the U.S. Energy Information Administration, at $2.67 per gallon today and falling (about 70 cents a liter). The extra disposable cash as a result of cheaper energy costs and modestly improving labour markets helps domestic spending. The cheap energy supply also helps industries like tourism, airlines and some agricultural and chemical producers.



Source: EIA.gov

Investment themes remain the same

- Own Canadian companies if they have growth outside Canada

- Maintain or increase USD denominated investments

- Avoid the industries that have longer term headwinds, like oil and gas producers and explorers. Overweight U.S. domestic consumer demand; companies that will be the beneficiaries of technology capital spending; companies that benefit from cheap energy supply; demographic trend of an aging population, i.e., healthcare.

- Alternative strategy funds that seek to minimize volatility and market correlation through methods like short selling, arbitrage, pair trades, and option strategies for downside insurance. We expected choppy markets from here to year end, and these strategies should help portfolios to move forward.

Best regards,

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