Weekly Updates Issue # 602

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1. Weekly Markets Changes

[February 17, 2017]

S&P TSX	S&P 500	Dow Jones	NASDAQ	CAD/USD	Gold	WTI Crude
15,838.63 +109.5 +0.70%	2,351.16 +35.06 +1.51%	20,624.05 +354.7 +1.75%	5,838.58 +104.5 +1.82%	$0.7642 -0.09¢ -0.12%	$1,236.00 +1.30 +0.11%	$53.37 -0.48 -0.89%

2. Ouch. Fund loses $600 million betting against Trump rally

[February 17, 2017] A mutual fund using complex trading strategies lost $600 million over just five days because it picked a terrible time to be bearish.
The alarming losses for the $3.2 billion Catalyst Hedged Futures Strategy Fund underscores just how powerful the rise in the stock market has been.
The Dow, S&P 500 and Nasdaq all closed at record highs for five days in a row through Wednesday, something that hadn't happened since January 1992. President Trump even tweeted about the feat.
The problem is that Catalyst placed defensive bets that would protect investors from market turmoil, but expose them to losses if the market got any higher.
That's exactly what happened, causing the mutual fund to suffer a loss of 15% through Thursday's close, Catalyst confirmed to CNNMoney.
The situation was worsened by the fact that the options that Catalyst had bet on were set to expire on Friday, making them virtually worthless given the market rally.
"This type of market, rapidly rising prices with low and falling volatility, is the exact thing the fund is positioned against," Catalyst Capital Advisors CEO Jerry Szilagyi said in a statement.
The losses sparked rumors on Wall Street over the fund's financial health. But Szilagyi said investors didn't dramatically yank their money and insisted the fund "is not, and has not been, under any duress."

Szilagyi said the losses triggered a risk management process to "kick in," causing Catalyst to reverse its bearish position into a bet that the market would rise.

Michael Block, chief strategist at Rhino Trading, said the fact that Catalyst and possibly other firms had to turn bullish may have actually helped contribute to the rally on Wall Street. He said the episode shows how strong market momentum can run over funds leaning in the wrong direction.

"It spirals and snowballs, forcing you to buy high and sell low," Block said.

Catalyst emphasized that it has no further exposure to the bets that got the fund in trouble.

"We have navigated through this type of market in the past, and we believe we will do so again," Szilagyi said.

Of course, the big rally on Wall Street has now cooled off a bit. The Dow opened down nearly 100 points on Friday after six-consecutive record days.

Block noted that the markets dipped a bit on Thursday during Trump's press conference. He said Trump didn't inspire confidence during the event because he focused way more on attacking the media than touting pro-growth tax cuts and deregulation.

"We've seen the market rally quite a bit when he talks about tax cuts and Dodd-Frank going away," Block said. "But when he's hectoring a journalist, it just reminds me of Hugo Chavez. What's he doing?"

3. Here comes the next wave of the U.S. oil boom

[February 17, 2017] After a painful two-year price war with OPEC, the worst may finally be over for the American oil industry.

U.S. oil companies didn't merely survive OPEC's attempt to drown them in low prices. The energy industry is emerging from this dark period of bankruptcies and job cuts much leaner and ready to thrive, even at prices that were once too low.

OPEC's decision in November to abandon its strategy of flooding the world with excess supply allowed oil prices to stabilize above $50 a barrel. That bottom in prices has allowed the U.S. shale oil producers that have driven the boom in American oil production over the past decade to once again start pumping more oil. And many have even started to rehire some of the thousands of workers laid off during the downturn.

The U.S. oil comeback has been led by a dramatic resurgence in the Permian Basin, a hotbed of shale drilling in Texas and New Mexico. Frackers are racing to add rigs in the Permian, where the count has skyrocketed from a low of 132 last April to 301 now.

"All evidence is indicating that an oil price over $50 is fanning the flames of higher production," Matt Smith, director of commodity research at ClipperData, wrote in a recent report.

That's why the U.S. Energy Information Administration significantly upgraded its 2018 forecast for domestic oil output to 9.5 million barrels per day, compared with 8.9 million barrels as of last November.

JPMorgan is even more bullish on American oil, predicting the U.S. will pump 9.7 million barrels a day by the end of next year.

That would be quite the feat, eclipsing the 44-year high set during the recent peak in April 2015. That kind of output would also be just shy of the all-time high, set in November 1970 just before the OPEC oil embargo.

All that new American oil could keep a lid on prices, which have already doubled from the lows of last year. Strong U.S. production would also make life more difficult for OPEC, especially because the cartel's well-executed production cut agreement is set to expire later this year.

The key to the U.S. resiliency is that financial pressure has forced once-bloated drillers to become vastly more efficient.

"The crisis of collapsing oil prices has seemingly focused the industry on doing more with less," JPMorgan global commodity research analyst David Martin wrote in a report.

Thanks to more sophisticated technology and lower prices for personnel and drilling equipment, shale drillers are much leaner these days.

Societe Generale called it a "profound technological transformation" that signals shale is "coming back, and coming back strong."

In fact, SocGen said each drilling rig is now able to pump more oil "than ever before." Capital Economics estimates that the U.S. can replicate the powerful output of 2015 with half the rigs.

Talk of an oil comeback is terrific news for laid-off oil workers in Texas, North Dakota and elsewhere. Goldman Sachs has estimated that nearly 170,000 oil and gas jobs were wiped out between late 2014 and mid-2016 as companies big and small scrambled to slash costs and stave off bankruptcy.

Thankfully, the pink slips have finally stopped flying in the oil patch. Government statistics show that the energy industry's labor force stopped shrinking during the second half of last year.

"Finally, we are seeing an uptick. The layoffs stopped about six months ago," Jeff Bush, president of oil and gas recruiting firm CSI Recruiting, told CNNMoney.

Bush cited a flurry of hiring, especially for six-figure jobs in geology, engineering, finance and accounting. The field work is also coming back, albeit more modestly.

He said the oil crash was "harsh" because of the dramatic decline in drilling activity.
"We're recovering, but it has not recovered yet," Bush said.
It stands to reason that hiring may not be quite as robust this time because shale companies can do more with less.
That may be true, but in order to ramp production back up the industry will need to hire a lot. Oil companies need to replace the workers who were laid off during the downturn, some of whom have found work in other industries like construction. Goldman Sachs has predicted the oil and gas industry may need to add 80,000 to 100,000 jobs by the end of 2018.
And that doesn't factor in promises by President Trump to rip up regulations that he says are holding the American oil industry back.
"When things come back online, there's going to be an enormous talent shortage of epic proportions," Bush said. "It's going to be nuts."

4. Samsung heir arrested in corruption scandal

[February 17, 2017] The heir to the Samsung business empire has been arrested on corruption allegations.
The detention of Lee Jae-yong, Samsung's de facto leader, is an embarrassing setback for South Korea's biggest conglomerate. Lee is under investigation for his alleged involvement in the huge political corruption scandal that has rocked the country.
Early Friday, a judge in Seoul approved a request from prosecutors for an arrest warrant for Lee, the prosecutor's office said. That means Lee will be held at the detention center where he had been awaiting the court decision.
Prosecutors allege that the executive, who's also known as Jay Y. Lee, pledged tens of millions of dollars to win favor with President Park Geun-hye and secure government support for a controversial merger that helped tighten his grip on Samsung.
They are accusing him of bribery, perjury, concealing criminal profits, embezzlement and hiding assets overseas.
Samsung and Lee have denied the allegations.
"We will do our best to ensure that the truth is revealed in future court proceedings," Samsung said in a statement Friday after the judge approved the arrest warrant for Lee.
The judge rejected a request for a warrant to arrest Park Sang-jin, the president of Samsung Electronics.

Lee is a vice chairman of Samsung Electronics, the crown jewel in the family's sprawling array of businesses, which also include construction, shipbuilding and even theme parks.

Samsung Electronics shares fell as much as 2% in Seoul on Friday after Lee was arrested. But they recovered some of their losses later in the day, closing down 0.4%.

"Samsung is going to continue to function just fine because it has a very deep bench of experienced executives to take care of day-to-day business," said Mark Newman, an analyst at Bernstein. "The only potential issue could be infrequent decisions on large long-term investments like major acquisitions."

The prosecutors first sought to arrest Lee in January, but a judge turned down that request, citing a lack of evidence. At the time, the prosecutors vowed to "steadily" pursue their investigation of the Samsung heir.

The case is part of a far-reaching scandal that has driven hundreds of thousands of South Korean protesters to the streets and prompted lawmakers to vote to impeach the president. Other top South Korean companies are also under investigation.

Samsung's links to the corruption investigation have done further damage to the company's image after the humiliating fiasco over its fire-prone Galaxy Note 7 smartphone last year.

Lee is far from the first South Korean business leader to face accusations of corruption. His father, Samsung Group Chairman Lee Kun-hee, was convicted twice -- and pardoned twice.

The elder Lee suffered a heart attack in 2014, which accelerated the conglomerate's efforts to prepare the way for his son to succeed him.

5. More pension plans using target-date funds as default option

[February 15, 2017] Target-date funds continue to be the most common default investment option offered to members of workplace capital accumulation plans, according to new research by the Canadian Institutional Investment Network and Great-West Life Assurance Co.

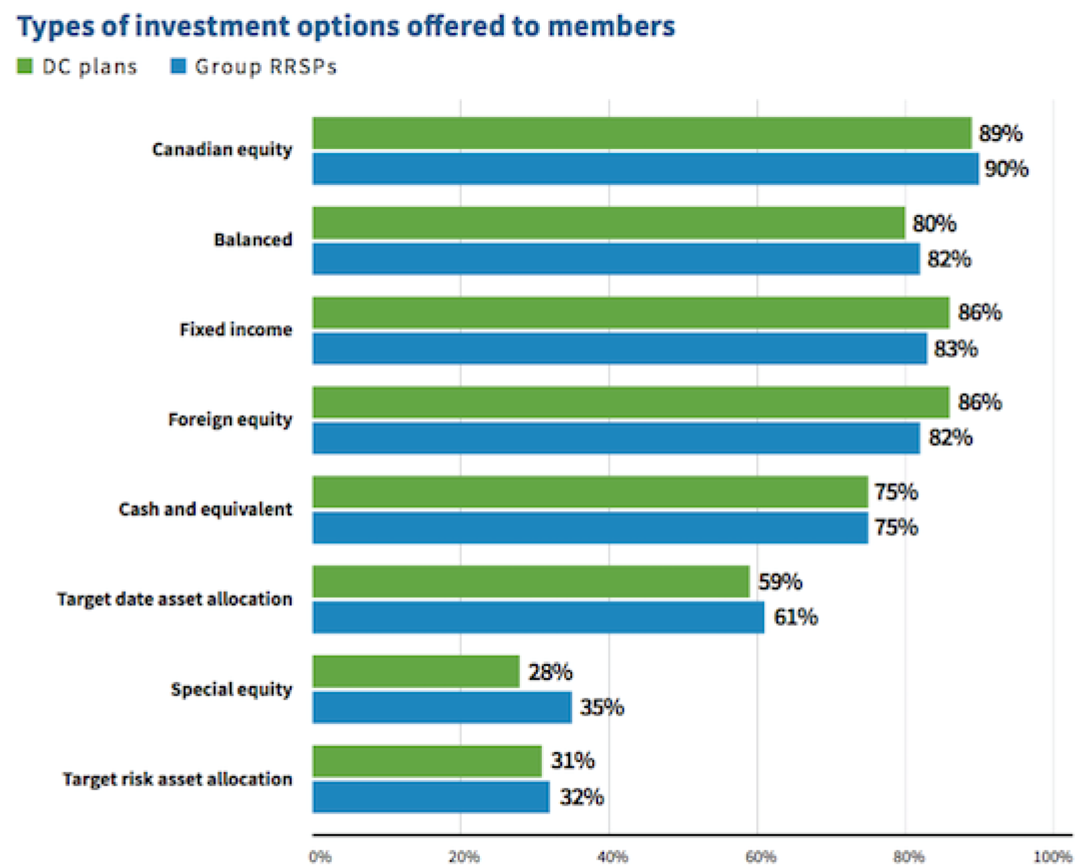
The 2016 CAP Benchmark Report found 50% of defined contribution plan sponsors and 51% of group registered retirement savings plan sponsors allocate target-date funds as their default option. That compares to 43% of defined contribution plans and 44% of group RRSPs that did so in 2015.

The main reason for the popularity of target-date funds as a default investment option is they’re the simplest allocation for members to understand, says Christine van Staden, vice-president of national accounts, group retirement distribution, at Great-West Life. She notes the majority of members who attend workplace education sessions or webinars aren't savvy investment experts but are generally individual members who may not understand how investments work.

"More and more employers are completely understanding the need to help their members by ensuring they have the opportunity through their plan design… to understand the concepts," she says. "And a target-date fund is, just simply, the easiest to understand, to explain and for [members] to grasp.

"They also realize a level of security… that their employer is working with a provider and with an investment fund lineup that they feel secure with. And then the way the target-date fund works gives them additional security that, as they reach their retirement age, they're moving from a more aggressive investment model to a more conservative model. So it's ease, it's simplicity and it is security."

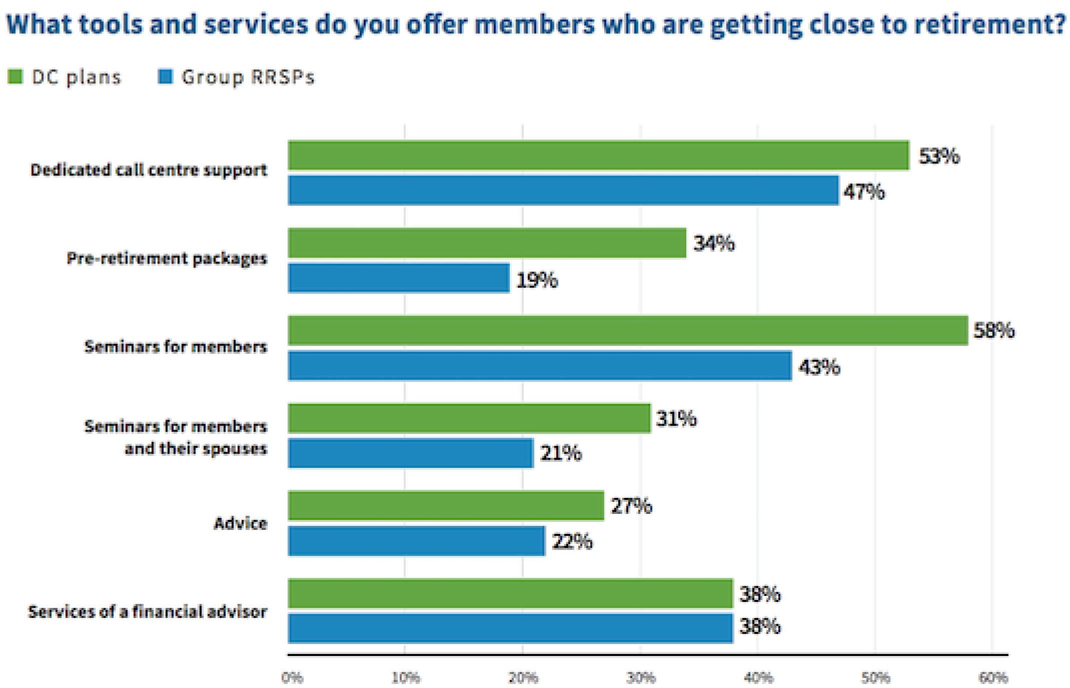
The survey also found the most common types of investment options offered to defined contribution plan members were Canadian equity (89%), balanced (80%), fixed income (86%) and foreign equity (86%). The order of the top four are the same for group RRSPs, although at slightly different percentages: 90% for Canadian equity, 82% for balanced, 83% for fixed income and 82% for foreign equity.



"There's a tremendous amount of activity stirring up the market, so to speak, certainly with the political arena and the U.S. situation," says van Staden. "But we always remind our members that their defined contribution plan is a long-term view… and we don't see that general underlying philosophy to be impacted or changed."

The survey also found 44% of capital accumulation plans are defined contribution pensions. That number is down from 53% in the 2015 survey. This year, just 16% offer a group RRSP only, while 41% provide that option as well as a defined contribution pension plan.

The survey also found participation rates in defined contribution pensions were the highest at 90.2%, compared to group RRSPs (59.7%) and deferred profit-sharing plans (62.7%). The 2015 survey broke the numbers down by mandatory and voluntary plans, with participation in voluntary defined contribution plans at 67.7% and group RRSPs at 53%.



When it comes to the tools and services offered to help plan members nearing retirement, the most common available to defined contribution members are seminars (58%), dedicated call centre support (53%) and the services of a financial advisor (38%). The same percentage of group RRSPs offer the services of a financial advisor, but dedicated call centre support (47%) is more common than pre-retirement packages (19%).

"There's a lot of opportunity there for employers to be more strategic in terms of putting education and communication strategies in place," says van Staden, adding it's important for employers to understand that the diversity of their employee population will require different approaches to education and communication.

"And then building your communication strategy with multitudes, leveraging all of the opportunities that your plan provider is willing to offer to reach out to those members," she adds. "For one group, it might be [webinars], another may need individual sessions or the ability to reach out to someone. It's very important that employers continue to realize their member population is going to be very diverse and have different requirements in terms of how they gather and act upon information."

6. Even boomers are worried about their retirement plans

[February 14, 2017] It's no secret that today's retirees are likely to live longer — they could spend up to 30 years in retirement. That means you need to help them plan for any extra expenses and health issues.

Indeed, the top three concerns of Canadian boomers (those aged 55 and up) are related to longevity. An RBC retirement poll finds this segment is worried about maintaining their standard of living (39%), having enough savings (37%) and covering healthcare costs (34%).

But there's a problem. Despite acknowledging these concerns, only one third of poll respondents (33%) say they plan to review and adjust their retirement lifestyle plans to ensure they're on track. Almost half (46%) say they're financially unprepared for retirement, compared to where they thought they would be.

Recent studies have suggested many Canadians aren't contributing enough to RRSPs and TFSAs. Trends data from Statistics Canada shows that, between 2000 and 2013, the number of contributors to RRSPs declined gradually by approximately 16% — when looking at contributors between the ages of 25 and 54.

The fall in contributor's correlates with poor economic performance and the availability of the TFSA as an alternative. StatsCan says, "Two of the largest annual declines occurred from 2007 to 2008 (2.8%) and from 2008 to 2009 (4.4%), which coincided with both the economic recession in 2008/2009 and the introduction of TFSAs in 2009."

TFSAs may be elbowing out the RRSP, given the StatsCan study shows "an increase in the number of individuals aged 25 to 54 who contributed to a TFSA, from 2 million in 2009 to 3 million in 2013." But more people in that age bracket were also withdrawing from TFSAs during that period, despite the looming reality of retirement.

A recent two-part study from BMO uncovers similar issues. The survey, conducted in December 2016, finds only 46% of Canadians plan to contribute to RRSPs this year. Plus, part two of the survey reveals that 38% of Canadians have withdrawn RRSP funds this year, before age 71 — an increase of 4% from last year.

Most early withdrawals are made to buy a home, says BMO, but some contributors also use the funds to pay for living expenses (21%), debt (18%) or emergencies (18%).

Bill Hill, national retirement planning consultant for RBC, warns in a release that people's priorities often shift as they enter retirement, so it's best to review these questions with clients at that point. "Retirement plans need to be fluid," he says.

Ipsos conducted the survey for RBC, polling 2,033 adult Canadians online from November 25 to 30, 2016.

RBC poll highlights

Top questions on the minds of boomers

- Will I have enough money in retirement (46%)?
- How do I make the most of the money I have saved (26%)?
- How will I deal with inflation in retirement (20%)?
- What lifestyle changes should I expect in retirement (19%)?
- How will I manage debt in retirement/How will I earn income while I'm retired (15%)?
- Should I downsize/sell my home (13%)?

Top activities of retired Canadians

- Taking time for myself (62%)
- Spending more time with my spouse/partner (45%)
- Getting more rest (43%)
- Travelling (42%)
- Improving my health (38%)
- Spending more time with my family (other than my spouse/partner) (32%)

7. EY's Canadian mining index soars 61% in 2016

[February 13, 2017] An Ernst & Young Canadian mining index declined 13% in the last quarter of 2016, largely due to weakness in gold and nickel prices, offset partly by gains in copper and zinc prices. (Copper increased 14% in anticipation of infrastructure spending in the U.S.)

The Mining Eye index tracks Canadian mining-sector performance of 100 TSX and TSXV mid-tier and junior companies with market capitalizations between $1.6 billion and $47 million.

For the full year, however, the index rose 61% — widely surpassing the 18% gain of the S&P/TSX composite index.

"The outlook for the Canadian mining sector remains healthy," says Jim MacLean, EY's Canadian mining and metals leader, in a release. "The recovery of commodities prices in the latter half of 2016, paired with improved productivity and global geopolitical factors, means we can anticipate more sustainable growth in 2017."

Further, the report suggests investors will continue to view gold as a safe haven investment, given the uncertainty surrounding various policies and plans under the Trump presidency.

Another potential boost to gold demand: gold is now accepted as an investment in Islamic finance. (Under Shariah law, gold was only allowed to be owned in physical form, like jewelry.) S&P estimates an associated increase in investment in financial assets of US$5 trillion by 2020.

Have a nice and fruitful week!