## As Volatility Finally Returns, Long-Term Bonds, Gold and FX to Dominate Q4

# The Safest of Havens in Late 2017

After the longest period of ultra-low volatility across major asset classes since 1993, stocks have started the month of September with a big thud. Statistically, September – and not October – is the worst month of the investing calendar year. October, of course, is tied to the infamous stock market crashes of 1929 and 1987; but in the annals of market history, no other month is worse for investors than September.

Since 1929, the S&P 500 Composite Index has averaged -1.1% in September. In fact, the worst single month for the stock market occurred in September 1931 when the S&P 500 Index crashed 30%, according to Business Insider.

As we've warned through most of 2017, asset classes worldwide are historically expensively-priced, except commodities. Years of super-low interest rates, massive asset purchases by the world's largest central banks and share buybacks in the United States helped the American broader market surge almost 275% since the bear market low in March 2009. This is now the second biggest bull market in history after the 1990s.

As markets enter correction territory this fall, even if temporarily, the severity of a decline might be alarming for some investors. Stocks haven't declined more than 5% from their highs since February 2016 and exchange-traded-funds (ETFs) have ploughed tens of billions of dollars into the stock market. A market decline is not inevitable but also likely to be violent because of short-term trading algorithms that increasingly dominate market orders.

What's interesting about this market is how safe-haven securities like gold, long-term Treasury bonds, Japanese yen and Swiss francs have appreciated this year even as other risky assets like stocks and high-yield bonds continued to rally. I don't think that's necessarily a good thing for the market and suggests investors are nervous about the prospects for risk-based assets. We've been bullish all year on gold and the Swiss franc, up 13% and 6%, respectively. That's not bad for safe-havens designed to appreciate amid market stress; until September, markets have been strong and yet many safe-haven assets have also rallied in unison.

A weaker dollar is also to blame for safe-haven gains. The USD Index hit a 14-year high earlier in January and has subsequently tanked almost 12% to a 24-month low. A sharply weaker dollar is a boon for most commodities, precious metals, foreign currencies and large-cap American exporters. Also, the Federal Reserve has delayed additional interest rate hikes this summer in the wake of soft inflation data – also helping safe-haven assets as the USD weakens.

You might be wondering why even bother owning portfolio hedges like Swiss francs or gold when the world economy seems to be in acceleration mode. Good point. For the first time in ten years, the world's major economies are growing in synch – even historical laggards like Japan have come alive in 2017. Italy and Greece, too. According to the OECD, all 45 countries tracked in its universe are poised to grow compared to 12 months earlier – the first time since 2007.

The problem with a synchronized global economic recovery is that it's rare and usually symptomatic of an ageing credit cycle. The last time it occurred was in the late 1980s (just ahead of a global recession and S&L Crisis) and in 1973 (oil embargo, high inflation and a dismal decade for financial assets). Since last spring, we've documented the growing list of credit concerns in the United States and in China.

In the United States, between April and June, banks reported a 25% rise in charge-offs tied to credit card debt and boosted their provisions for future losses, according to the FDIC and Financial Times. Also, mortgage lending to home buyers with poor credit ratings is also rising. And even sub-prime securities – long shunned by the investment banks that created this synthetic garbage that imploded in 2007, are expected to generate $10 billion dollars in loan volume in 2017. Though not at alarming levels yet, U.S. auto loan defaults are rising since 2016 and vehicle sales languish and dealer inventories grow larger. And don't even get me going on commercial bank loans, real estate loans, student loans – all in a fragile state.

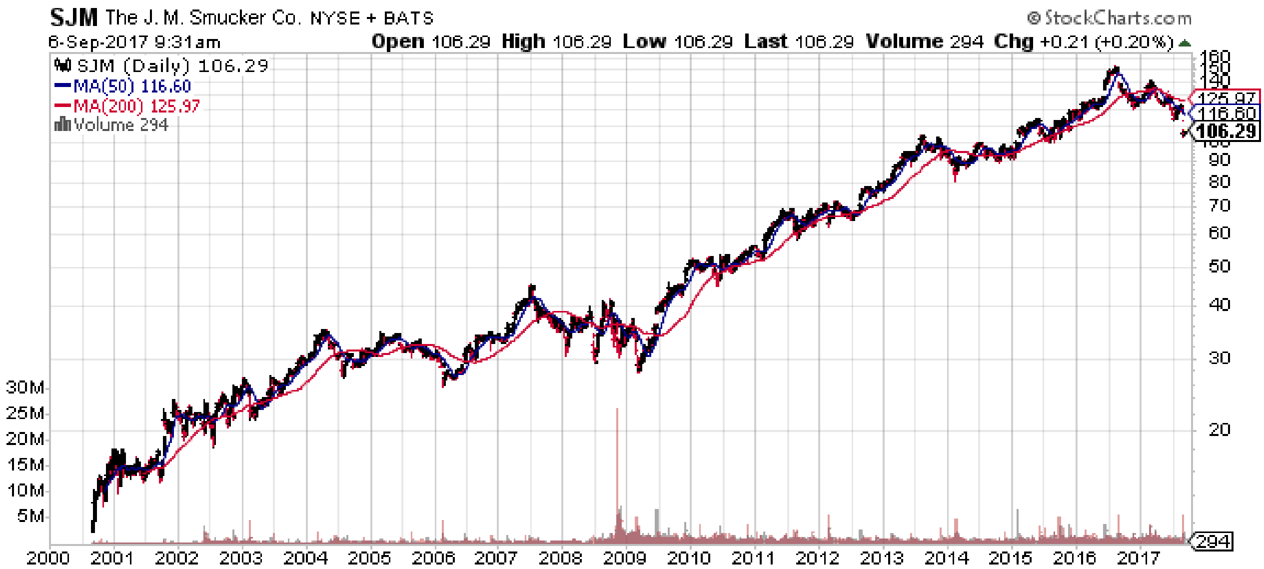
Though not bearish, it's obvious the global economic cycle is now extended and overvaluation is a major concern for discerning investors. That's why our ENR growth-based portfolios hold hedges like gold, Swiss francs and yen. Stocks, bonds, real estate and art (and other collectibles) are expensive. If you haven't done so already, now is the time to buy Swiss francs, Japanese yen, gold and long-term Treasury bonds. Please see the enclosed table in this month's issue for complete details.

## Attractive Valuation, 3% Dividend and Insider Buying Spark 'Buy' Rating

# Bullish on J.M. Smucker and Pet Food

For some of the largest food and beverage companies in the world, the biggest source of profits in a struggling environment amid 'Amazonification' of retail is pet food. Surprised? Don't be. Margins are growing fast for companies in the pet foods and pet snacks business. For example, **Nestlé** (Zurich-NESN), a core holding in every ENR managed account and undergoing dramatic change under new CEO, Ulf Mark Schneider, is shifting towards healthier products with less sugar; it also generates a growing portion of its net profits from pet foods. Not too many people think of Nestlé as a pet foods company. But that's where some of its best margins lie along with bottled water and Nespresso.


Pet foods and snacks are also a major source of revenues for a great American company now selling at a 52-week low following a poor batch of quarterly earnings that we believe is an aberration in the bullish long-term stock trend.




Based in Orrville, Ohio and founded way back in 1897, **The J.M. Smucker Company** (NYSE-SJM) is a $12 billion-dollar public enterprise that generated revenues of $1.75 billion dollars in its latest fiscal year, ending July 31. Smucker's has been a tremendous investment since 2000, rising more than 650%, excluding dividends. It's a great growth stock that's turned into a value-based investment at this low level, including a 3% dividend. SJM hiked its dividend last month by 4% and has hiked its payout every year for the past 16 years. The stock now trades at 17 times earnings, 1.76 times price-to-book and 1.64 times price-to-sales – among the least expensive in the consumer staples sector. Smucker's also maintains a healthy 13.5% operating margin, controlling costs and expenses better than 80% of its peers in the sector.

Consumer staples once commanded among the markets' biggest premium until peaking last fall. As interest rates climbed following Trump's election win, interest rate sensitive sectors of the market declined, including the defensives like food and beverage. To be sure, the sector traded at lofty valuations before 2017 and earnings growth has come under pressure amid Amazon's huge push into food services and consumers' general shift to healthier eating options. But unlike most other packaged foods companies, Smucker's has a diversified business with some segments growing strongly while other are struggling.

Smucker's currently has 49 brands that distribute worldwide. The companies' old claim-to-fame starting in 1897 was jams and spreads. Some of its consumer and natural foods' brands include Smucker's jams and natural jams; JIF peanut butter; Pillsbury; Crisco and Natural Brew. It also owns major coffee brands like Folger's and Dunkin' Donuts coffee and Kava. In Canada, she's a major player in some great brands like Bick's pickles, Robin Hood flour, Five Roses Tea and Carnation. But the real icing on the cake belongs to its pet foods and snacks businesses.

Smucker's is a leading revenue generator in pet foods. Representing 30% of its revenues, pet foods is a $24.6 billion-dollar industry, according to Zion Market Research. People love their pets and will spend premium dollars to provide quality care and food. Smucker's has leading brands, including Milk-Bone, Kibbles 'n Bits, Nature's Recipe, Meow Mix, Gravy Train and Nine Lives among others. Each of these is a leader in the pet space with growing market share and highly regarded brand-name recognition.

Smucker's now trades 31% below its all-time high in July 2016. The stock has been smashed this year, down 18% this year and off 24% over the past 12 months. Fiscal first quarter results were a disappointment as revenues and net income decline. Foreign currency-related losses were a big factor. We think the stock is heavily oversold and the dollar has declined further since June, which should help boost fiscal Q2 earnings.

On August 29, Smucker's Chairman, Richard Smucker, purchased 10,000 shares at $105.40 worth a total of $1.1 million dollars. That's a bullish cash purchase. The stock now trades at $105.35 or almost exactly where its Chairman made his latest purchase.

BUY **Smucker's** (NYSE-SJM) at market up to $115. Place a 20% stop-loss below your purchase price.

## European Sell-Off Unleashes Bargains

# Portfolio Update

The sell-off across most world markets, including Europe, since mid-summer has created bargains. According to Morgan Stanley Capital International (MSCI), European stocks continue to sell at a fair discount to global equities (21% discount based on price-to-book value) and dividends are 38% greater in Europe. But the P/E (price-to-earnings) advantage favouring European stocks at the beginning of the year has been neutralized. Both the MSCI World Index and the MSCI Europe Index trade at roughly 20 times trailing earnings. Investors have to dig below the index to find good bargains.

Also, euro-zone economic growth is accelerating and corporate earnings are outpacing Wall Street in 2017. It's also a plus the important Franco-Germanic alliance remains committed to a strong euro-zone following Emmanuel Macron's victory last April. Assuming Angela Merkel wins in German elections this month, the future has certainly improved for regional investors following an uncertain start to the year.

Eastern Europe has led regional growth this year with the Czech Republic, Poland and Romania posting solid GDP results. Europe is back. The risks to the outlook are a weaker American dollar. The dollar poses are serious earnings and export headwind to large manufacturers in Germany, Italy and France, among others and threatens the ECB's inflation target.

# Euro Rally Hits Two-Year High

Nevertheless, stocks that were previously rated a HOLD have been upgraded to BUY this month. Europe remains behind the American earnings and growth cycle. We continue to find bigger bargains overseas. For dollar-based investors, foreign currencies now sit at a 24-month high, boosting total returns or cushioning losses when measured in local currency terms.

Among our favourites at these levels are **Commerzbank AG** (Frankfurt-CBK), down almost 10% from our entry price and offering tremendous profit potential as it restructures it balance-sheet, boosts its loan book at the expense of smaller lenders in Germany and eventually benefits from a steeper yield-curve in the euro-zone once the ECB stops QE. BUY Commerzbank up to €11.75.

**Hennes & Mauritz AB** (Stockholm-HMB) ranks as the cheapest discount fashion retailer in Europe after a huge sell-off last winter. The stock has continued to waffle, now trading at SEK 200 and down 10% from our initial entry price in SEK. However, the USD has tanked versus the krona and our adjusted performance is a 1% gain since May 29. H&M is home to incredibly significant insider buying by its Chairman ($538 million dollars of insider buying since January by Chairman, Stefan Persson) and yields a 4.88% dividend in SEK. BUY up to SEK 225.

Based in Spain, DIA or **Distribuidora Internaçional de Alimentaçion** (Madrid-DIA) has also softened since last spring and is down a cumulative 1% in EUR terms but up 10% in USDs. Since our first plug on April 1st, the EUR has gained 11.4%. I like Dia's story, one of the leading discount cash-and carry grocers in Spain and parts of Latin America. The stock is very cheap and yields a 4% dividend. BUY up to €5.75.

It's also important to hedge your growth portfolio. If you hold 50% or more in stocks, then it's time to buy some safe-haven protection. This doesn't mean you load up on S&P 500 put options or a ton of gold. Rather, a sprinkle of several high-quality hedges will suffice and should help to offset some of your losses in equities in the event of a severe market dislocation.

This month, we're buying the **Pro Shares 20+ Year Treasury ETF** (NYSE-TLT). Though not a fan of most bonds, long-term Treasury securities score the biggest capital gains when markets break. That's almost always the case dating back to 1998. We like TLT as a hedge but only if you own a basket of stocks representing 50% or more of your portfolio.


We're also buying the Japanese yen vis-à-vis the **Currency Shares Japanese Yen Trust** (NYSE-FXY). No other currency, except maybe the Swiss franc, logs a bigger gain amid market turmoil. A cheaper alternative is to simply purchase Japanese yen at your private bank, if possible.

# What's Included in this Service

As part of the **ENR Advisory Extra** package, you're entitled to the following services. We highly recommend our clients take advantage of these services to better implement your long-term investment goals and risk objectives:

- Quarterly portfolio/account review
- Portfolio planning and future projections
- Automatic portfolio rebalancing
- Tax-loss harvesting advice

Please call our office in Montreal and make an appointment with Eric. Telephone (Toll-Free) 1 877 989 8027 or email Ms. Melissa Silva at melissa@enrasset.com

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Eric N Roseman
Montréal, Canada
September 6, 2017

## ENR Advisory Extra Portfolio, as of September 5, 2017

| Security | Listed | Symbol | Entry Price | Date | Current Yield | Current Price | Gain/ Loss | Advice |
|---|---|---|---|---|---|---|---|---|
| **J.M. Smucker Co.** | NYSE | SJM | $105.73 | Sep 6/16 | 3.00% | $105.73 | New | BUY |
| **ProShares 20+ Year Treasury ETF** | NYSE | TLT | $128.76 | Sep 6/16 | 2.45% | $128.76 | New | BUY |
| **CurrencyShares Japanese Yen ETF** | NYSE | FXY | $88.45 | Sep 6/16 | 0.00% | $88.45 | New | BUY |
| **CurrencyShares Swiss Franc ETF** | NYSE | FXF | $93.03 | Jan 3/17 | 0.00% | $99.31 | 6.67% | BUY |
| **Gold Bullion** | Unlisted | N/A | $1,077.30 | Jan 4/16 | 0.00% | $1,346.70 | 25.01% | BUY |
| **Commerzbank AG** | Frankfurt | CBK | € 11.13 | Jul 31/17 | 0.00% | € 10.10 | -8.58% | BUY |
| **SPDR EURO Stoxx 50** | NYSE | FEZ | $38.50 | Jun 23/17 | 2.53% | $39.68 | 2.73% | BUY |
| **Hennes & Mauritz AB** | Stockholm | HMB | SEK 222.10 | May 29/17 | 4.60% | SEK 199.00 | 0.85% | BUY |
| **Pfizer Inc.** | NYSE | PFE | $32.79 | Jan 3/17 | 3.74% | $33.80 | 4.06% | BUY |
| **Ranger Equity Bear** | NYSE | HDGE | $10.00 | Nov 2/16 | 0.00% | $8.70 | -13.00% | BUY |
| **DIA S.A** | Madrid | DIA | € 5.36 | Apr 4/17 | 3.58% | € 5.30 | 10.28% | BUY |
| **Putnam Premier Income Trust** | NYSE | PPT | $5.36 | Apr 27/17 | 5.81% | $5.38 | 3.28% | HOLD |
| **Macquarie Global Infrastructure Total Return Fund** | NYSE | MGU | $19.81 | Jan 3/17 | 5.83% | $25.19 | 30.89% | HOLD |
| **Dassault Aviation** | Paris | AM | €1,091.60 | Jan 3/17 | 0.95% | € 1,272.80 | 30.12% | HOLD |
| **Unilever ADR** | NYSE | UL | $42.11 | Nov 2/16 | 2.53% | $58.10 | 39.70% | HOLD |
| **iShares Currency Hedged MSCI Japan** | NYSE | HEWJ | $24.65 | Sep 6/16 | 1.75% | $28.99 | 19.52% | HOLD |
| **Rheinmetall AG** | Frankfurt | RHM | € 62.82 | Aug 1/16 | 1.70% | € 87.17 | 45.19% | HOLD |
| **Berkshire Hathaway Class B** | NYSE | BRKB | $125.79 | Feb 9/16 | 0.00% | $176.96 | 40.68% | HOLD |
| **ProShares UltraShort 20-Year Treasury** | NYSE | TBT | $40.98 | Nov 30/16 | 0.00% | $33.47 | -18.33% | HOLD |