Outcome WEALTH MANAGEMENT | IT'S YOUR MONEY EXPECT MORE

Monthly Performance Report | May 2017

## Investment Strategy and Objectives

Outcome Wealth Management invests globally and uses liquid, low cost ETF's to do it efficiently. Our strategies are designed to better protect money in bear markets and deliver higher long-term returns.

## Global Overview

May witnessed a continuation of themes from prior months, with flows into risk assets pushing global equities higher.

**U.S.** markets improved modestly behind an improving earnings outlook, prospects (albeit diminishing) of a pro-business Republican agenda, a handful of surging tech stocks. and, of course, the sense of 'what else am I going to invest in? Bonds yielding 2%, and the taxman takes half of that?'.

**Canadian** equity returns have been modest in 2017, with the TSX down 1.3% in May and now up just 1.5% on the year. Financials, which comprise nearly 36% of the index, have pulled back 5%-10% from their recent run-up. Energy stocks have also weighed on the market with crude languishing on either side of $50.

**Europe** has seen strong inflows, with the results of the French election bringing a sense of political stability (for now) and equities in the region that are less expensive than their U.S. counterparts.

**Emerging markets** continued to move higher with EEM (the iShares ETF that tracks emerging markets) up 2.8% in May and now up 17.7% on the year. China is the largest weight in the index at 27%, followed by South Korea (15.5%) and Taiwan (12.2%). The notable exception in the space was Brazilian equities, which declined 5% on the month due to yet another political crisis in Brazil. However, given its relatively modest weight in EEM (6.6%), the resulting damage was limited.

**Interest rates** moved modestly lower in most regions and continue to frustrate both bears and investors looking to put money to work at higher yields. Despite the Fed's resolve to gradually raise rates and reduce its bloated balance sheet, U.S. 10 year yields are probing 2017 lows around 2.20%. Canadian and European yields remain significantly lower than those in the U.S., while credit spreads were broadly stable in May.

## ETF Dashboard

| Symbol | Geography | Asset Class | May | YTD | 1 Year | 3 Year | 5 Year |
|---|---|---|---|---|---|---|---|
| XIU | Canada | Stocks | -13. | 1.7 | 13.3 | 5.3 | 9.3 |
| SPY | U.S. | Stocks | 1.4 | 8.5 | 17.2 | 9.7 | 14.7 |
| VNQ | U.S. | REITs | -0.7 | 0.3 | 2.6 | 7.3 | 9.3 |
| PFF | U.S. | Preferred Shares | 0.6 | 7.0 | 4.1 | 4.8 | 5.8 |
| HYG | U.S. | High Yield Corporate Bonds | 1.0 | 4.2 | 11.4 | 2.6 | 5.4 |
| SJNK | U.S. | Short Term High Yield Corporate Bonds | 0.8 | 3.6 | 11.4 | 1.9 | 4.1 |
| LQD | U.S. | Inv. Grade Corporate Bonds | 1.3 | 3.7 | 4.0 | 3.4 | 3.8 |
| SDY | U.S. | High Dividend Stocks | 0.1 | 4.2 | 11.9 | 9.8 | 13.9 |
| TLT | U.S. | Long Term Treasuries | 1.9 | 5.3 | -2.1 | 5.5 | 1.9 |
| VCSH | U.S. | Short Term Inv. Grade Corporate Bonds | 0.5 | 1.7 | 2.3 | 1.9 | 2.3 |
| IEV | Europe | Stocks | 4.7 | 17.0 | 16.6 | -0.4 | 9.9 |
| RWX | International | REITs | 2.5 | 9.0 | 1.4 | 0.5 | 7.5 |
| EWJ | Japan | Stocks | 2.8 | 9.1 | 15.0 | 6.2 | 9.8 |
| EEM | Emerging Markets | Stocks | 2.8 | 17.7 | 26.4 | 0.8 | 3.7 |
| EMB | Emerging Markets | Sovereign Bonds | 0.8 | 6.5 | 9.0 | 4.3 | 5.0 |

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## Global Tactical Asset Allocation (GTAA) Strategies[1]

| | | Jan | Feb | Mar | Apr | May | Jun | Jul | Aug | Sep | Oct | Nov | Dec | YTD |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| GTAA Growth 100 | 2017 | - | - | - | - | 1.63% | - | - | - | - | - | - | - | 1.63% |
| GTAA Income 100 | 2017 | - | - | - | - | 0.75% | - | - | - | - | - | - | - | 0.75% |
| GTAA Moderate 50 | 2017 | - | - | - | - | 0.63% | - | - | - | - | - | - | - | 0.63% |

**GTAA Growth 100**

Our GTAA Growth 100 strategy was 90% invested in 'risk' assets, consisting primarily of equities and high yield bonds. Canada was the only equity market in our universe in which the strategy was <u>not</u> invested.

The largest performance contributions came from Europe (IEV + 4.7%), emerging markets (EEM + 2.8%), and Japanese equities (EWJ +2.8%).

For the month of June, the strategy decreased its exposure to risk assets from 90%, to 80%.  The strategy continued avoiding Canadian equities (EWC), while also liquidating its position in U.S. REITs (VNQ).

**GTAA Income 100**

The GTAA Income 100 strategy was 88.8% weighted in 'risk' assets.  As was the case with our GTAA Growth 100 strategy, our models avoided Canadian equities.

The largest performance contribution came from international REITs (RWX +2.5%).  More modest contributions coming from U.S. investment grade corporate bonds (LQD +1.3%) and U.S. high yield bonds (HYG +1%).

For June, the strategy decreased its exposure to risk assets from 88.8% to 66.6%.  The strategy continued avoiding Canadian equities, while liquidating its positions in U.S. REITs (VNQ) and U.S. High Dividend Stocks (SDY).

**GTAA Moderate 50**

With the same investable universe as the GTAA Income 100 strategy - but with a more conservative mix as 'risk' assets are capped at 50% - performance contributions were similar, (albeit less pronounced) than those in our GTAA Income 100 strategy.

For June, the strategy maintained its exposure to risk assets of 50%. U.S. REITs and U.S. high dividend stocks were eliminated, in favour of other higher yielding asset classes.

## ETF Spotlight | SPY

Started in 1993, the **SPY** (SPDR S&P 500 ETF) is the best-recognized and oldest ETF. Issued by State Street Global Advisors (SSGA), SPY tracks the S&P 500 US Index, a market-cap-weighted index of large and midcap stocks. Technology stocks represent the largest sector at 23%, followed by financials at 17%.

With assets now a massive $233b and an expense ratio of just 9 basis points, the SPY is popular for tactical traders as well as with long term investors.

## In the News

**High-Yield and Harvard: Endowment Loves this ETF**. To read the article click here.

**Why ETF Markets are Surging**. To read the article click here.

1. Returns are gross of OWM management fees

## Contact

Outcome Wealth Management
110 Yonge Street, Suite 1602
Toronto, Ontario M5C 1T4
www.outcomewm.com

Robert White
CEO
rwhite@outcomewm.com
+1 (416) 687-6565

Noah Solomon
President and Chief Investment Officer
nsolomon@outcomewm.com
+1 (416) 687-5403

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