REVIEW & COMMENTARY
1ST QUARTER 2014

Imperialism- Back to the Future

The Britannica Concise Encyclopedia defines imperialism as the policy of "… extending a nation's authority by territorial acquisition or by the establishment of economic and political hegemony over other nations. Because imperialism always involves the use of power, often in the form of military force, it is widely considered morally objectionable, and the term accordingly has been used by states to denounce and discredit an opponent's foreign policy."

Thankfully, defense against traditional Imperialism has evolved. Rather than military conflicts; superpowers are using financial warfare instead. The Euro Zone, US and many others are presently imposing economic sanctions, with the prospect of escalating them, against Russia. The one risk of economic sanctions is that this may take a considerably longer period of time to cause the equivalent impact of physical force (though wars have lasted hundreds of years). Many of the Euro zone economic engines are dependent on fossil fuels produced or transported through Russian territory. If the Russians were to retaliate against these sanctions by refusing or disrupting the flow of these fuels, the short term strain on the Euro zone economies would be significant which would most likely spill over onto stock prices on major equity exchanges. The United States can now make up for any other country's potential shortfall in oil and natural gas better than any time in their history. As the Keystone pipeline decision is yet to be determined, the US could make a bold and powerful statement if they were to embrace this new project. This would not only increase potential production of refined fuels but also expedite the speed and efficiency in refining and eventually transporting these necessities to those in need. While these changes would require time and financial disruption would prevail during this time, US energy independence and increased capacity for export would dramatically change Russia's present imperialistic posturing. It would certainly make the Oil Cartels take note too.

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While Russia's recent annexation of Crimea brings back reflections of the more traditional definition above, there is a new type of imperialism equally unsettling. Leading exchanges around the globe are consolidating, putting more power in fewer hands. Michael Lewis's new book, Flash Boys, discusses, among many other interesting points, the evolving automation of trading on these increasingly powerful exchanges. While we disagree that the markets are 'rigged', as Mr. Lewis describes it, we do acknowledge that given the present and growing tendencies of high frequency trading and the labyrinth of high speed conduits between an order-giver and order- taker, there is the opportunity in a fraction of a second, the time it might take any one of us to blink twice, to take advantage of an order by placing a trade in front of it- or 'front running'. This may cause short term disparities in the market but there is no evidence that there is a material detriment to the long term outcomes of successful investing mainly because many of these high frequency transactions are totally transitory in nature- they are just as quickly sold as they were purchased. However, it does create concern. Not only has society continued to become increasingly automated and computer- dependent, so have the exchanges. Regulators must make sure that exchange owners are held in check to make sure that investors of all sizes are protected from the potential abuses that can be perpetrated under monopolist or oligarchical business structures.

Despite this background of geo-political noise, equity markets were quite steady in the first quarter. Canadian equity prices outperformed US counterparts even after taking into consideration our weaker dollar. While this is something we consider well over due, we anticipate this trend to continue throughout the year. While there are always risks, interest rates appear to be staying at present levels for a while despite the US Federal Reserve starting to taper their liquidity program. A very cold winter in the Mid and North West does appear to have played a greater than anticipated role in slowing economic progress in North America but Spring holds promise for not only better weather but a warmer economic climate as well.

While the markets have moved up nicely over the past year, we are not expecting equity prices to continue to move higher without some pause or modest correction. However, we continue to be constructive on the equity markets and remain committed. In Canada, we had a number of companies increase their dividends- some close to a double digit increase and we remain hard pressed to find a more suitable place to invest.

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