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THE CANADA REVENUE AGENCY’S NEW POLICY

Previous articles in this magazine have covered the complex rules regarding the withholding and income tax filing requirements for Canadian non-residents owning and renting out real estate located in Canada.

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Relationships in Retirement

One of the bigger challenges reported to me by newly-minted retirees is facing the change in relationships with friends, family and spouses/partners. As a retirement specialist, speaker and author of the best-seller Don’t Just Retire – Live It, Love It!

Read more: page 12
CRA Magazine is Canada’s first e-magazine designed specifically for Canadians who are presently living abroad, who have done so in the past or who are contemplating an out-of-country sojourn in the future.

Our magazine is distributed electronically free of charge to subscribers in 142 countries around the world. In addition to sound and timely advice in the investment and tax arenas, CRA e-magazine covers everything from offshore employment, vacation/travel and international real estate information to country profiles, medical/insurance and education options for your children.

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Welcome to the July/Aug 2014 edition of CRA Magazine.

In this edition of CRA Magazine, our resident experts Russell Vert and Wayne Bewick write about Canada Revenue Agency’s new policy which will provide some relief for late-filed Canadian non-resident real estate rental tax returns. Some non-residents of Canada who are renting out Canadian rental properties are not in compliance with tax rules will benefit from this article.

Richard Atkinson writes about various relationships in retirement. One of the bigger challenges by newly-minted retirees is facing the change in relationships with friends, family and spouses/partners. Rick talks about how to tackle all the different facets of relationships in retirement.

In this edition we are publishing an article from Fidelity Investments Canada. Jurrien Timmer, director of global macro talks about the current bull market we are having since 2009. The U.S. stock market has hit all-time highs. Does this mean we’re in the emerging stages of a new secular bull market? Jurrien takes a look at past secular bull and bear markets to see whether there are trends and similarities that may give us clues.

Abu Nizam writes about his view on the bull market and is staying in the market. He puts together various macroeconomic numbers and views from leading investment firms to support his view.

We sincerely hope that you enjoy this issue. Should you wish to contact us please send an e-mail to info@cramagazine.com. As always, your questions and comments are welcome.

Dax Sukhraj
Publisher
THE CRA’S NEW POLICY PROVIDES SOME RELIEF FOR LATE-FILED CANADIAN NON-RESIDENT REAL ESTATE RENTAL TAX RETURNS

By: Russell Vert CPA CA, CPA (Maryland)
Wayne Bewick, CPA CA, CFP, CPA (Illinois)

Previous articles in this magazine have covered the complex rules regarding the withholding and income tax filing requirements for Canadian non-residents owning and renting out real estate located in Canada.

Some non-residents of Canada who are renting out Canadian rental properties are not in compliance with these rules, either because they are unaware of the requirements or because the complexity of the rules makes them bury their head in the sand. Fortunately the Canada Revenue Agency (CRA) has recently announced a new policy that can provide substantial relief for the late-filing of non-resident rental income tax returns, allowing these non-compliant taxpayers the ability to catch up on their filings without a huge financial drain.

WITHHOLDING AND INCOME TAX REQUIREMENTS

First, let’s review what the withholding and income tax rules are:

- As a non-resident of Canada, the rent you collect is subject to a 25% non-resident withholding tax on the gross rent collected. It is possible to have this withholding reduced to 25% of your net rental income upon approval from the CRA. Under either method, the non-resident withholding tax must be remitted monthly by your registered rental agent who must be a resident of Canada.

- Your annual rental income is subject to Canadian non-resident income tax, which is calculated as 25% of the gross rental income collected. It is possible to have this tax reduced to 22.2% of your net rental income (for net rental income up to $43,953) by filing a Section 216 income tax return.
THE CRA’S NEW POLICY PROVIDES SOME RELIEF FOR LATE-FILED CANADIAN NON-RESIDENT REAL ESTATE RENTAL TAX RETURNS

If you are using the gross method this income tax return must be filed within two years after the end of the rental year. If you are using the net method the return must be filed by June 30th after the end of the tax year. Returns filed later than this may be disallowed by the CRA and tax may be assessed at 25% of gross rental income which is typically a very unfavorable result.

Let’s use the example of Marc, a Canadian non-resident who owns a condo in Toronto that he rents out for $1,000 per month. Using the Net Method, Marc subtracts his rental expenses from the gross rent collected and he estimates his net rental income to be $1,200 for the year, or $100 per month. After approval is received from the CRA, Marc’s agent can withhold and remit $25 per month or $300 in total for the year. By June 30th after the end of the tax year Marc would file a Section 216 tax return to report his total net rental income of $1,200, the tax on which would come to $266.40 ($1,200 x 22.2%) and he would receive a refund of the additional $33.60 that was withheld.

Using the Gross Method, Marc’s agent would withhold and remit $250 per month of non-resident tax. At the end of the year, Marc’s total non-resident tax would be $3,000 ($250 x 12) which would be completely satisfied by the tax withheld and he would not have to file a tax return. However, as the overall tax as per above is only $266.40 it would be beneficial for Marc to file a tax return and by doing so he would receive a refund of $2,733.40

The following chart will help summarize the withholding and income tax rules:

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<th>Withholding tax</th>
<th>Gross Method</th>
<th>Net Method</th>
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<tr>
<td></td>
<td>• 25% of gross rent collected</td>
<td>• 25% of net rental income</td>
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<td></td>
<td>• Remitted monthly</td>
<td>Remitted monthly</td>
</tr>
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<td></td>
<td></td>
<td>Requires annual prior approval from the CRA via NR6 Form</td>
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<tr>
<td>Non-resident income tax</td>
<td>• 25% of gross rent collected</td>
<td>• 22.2% of net rental income up to $43,953.</td>
</tr>
<tr>
<td></td>
<td>• No tax return required</td>
<td>• Requires filing a Section 216 tax return by June 30th.</td>
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<td>however it is likely favorable to file a return if the actual tax rate is lower than 25% of gross rent.</td>
<td>• Late-filed returns may be disallowed by CRA and a tax of 25% of the gross rent may be assessed.</td>
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<tr>
<td></td>
<td>• Tax return must be filed within 2 years after the end of the relevant rental calendar year.</td>
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THE CRA’S NEW POLICY PROVIDES SOME RELIEF FOR LATE-FILED CANADIAN NON-RESIDENT REAL ESTATE RENTAL TAX RETURNS

Let’s use another example where Marc does not use either the gross method or the net method and instead doesn’t remit anything to the CRA. In this instance the CRA can hit Marc with a 25% penalty of gross rent or $3,000 per year!

In the first two examples above as long as the taxpayer is compliant with the filing of their non-resident rental returns the eventual tax will be $266.40 under both the net method and the gross method. Under the gross method the individual would pay $3,000 of front and would then get the rest refunded when he or she files their tax return. Under the net method the taxpayer would remit $300 and would get $33.60 refunded when he or she files their tax return. Because there is a substantial differential from a cash flow perspective throughout the year we see many people file on the net basis as it is much more preferential to give the CRA $300 over the course of the year then $3,000. If the taxpayer does neither the gross or net method then they can be hit with a penalty tax of $3,000 per year which is a lot more than the tax of $266.40 that will be owed if the taxpayer does things correctly!

NEW CRA POLICY FOR LATE-FILED SECTION 216 RETURNS

As we can see from Marc’s example, it is typically always beneficial for a Canadian non-resident to be compliant using either the Net Method or the Gross Method versus not doing any annual remittances. Unfortunately for those who are catching up on tax filing obligations by filing multiple years at one time they are only able to file Section 216 returns and to pay tax based on the net income for the two most recent years. All years before that would have to be filed using the Gross Method which could amount to a much higher tax assessment.

A new policy recently released by the CRA provides some relief for these late filers. Under this new policy, the CRA will allow a non-resident to late-file Section 216 returns once and will agree to assess tax based on the net income for all years filed. However, the non-resident will be responsible to pay arrears interest on the withholding tax that should have been remitted under the Gross Method.

Looking at our example again, let’s assume that Marc became a Canadian non-resident and started renting out his Toronto condo on January 1, 2010.
It is now January 2014 and Marc has just become aware of the withholding and income tax requirements for the non-resident rental of income and he wants to become compliant.

Before the CRA’s new policy, Marc could file using a section 216 return only for 2012 and 2013 because these are within the two-year time limit. He would have to use the Gross Method for 2010 and 2011 as they are outside the two-year time limit. This would mean he would be assessed tax of $266.40 of tax per year for 2013 and 2012 and $3,000 of tax per year for 2011 and 2010, and for total tax of $6,532.80 for all four years.

Under the new CRA policy, Marc can file using the Section 216 net income method for all four years. This would result in tax of $266.40 per year or total tax of $1,065.60 for all four years, for a savings of $5,467.20.

It is important to note that this relief is only for the non-resident income tax obligation, and not for withholding tax. Because tax should have been withheld and remitted monthly, the CRA will calculate arrears interest on the monthly amounts that should have been withheld using the Gross Method and these charge will appear on the Notice of Assessment.

We welcome this new policy as it encourages those who are non-compliant to come forward and file overdue tax returns without having to pay the higher taxes assessed under the Gross Method. We encourage those who are behind in the filings to take advantage of this new policy and take advantage of the tax savings and reduced penalty charges that it offers.

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Wayne Bewick is a tax partner focusing on Canadian and US tax issues for expatriates with Trowbridge Professional Corporation and spends time working out of both the Trowbridge Toronto and London, UK offices. To contact Wayne, please email wayne.bewick@trowbridge.ca.
One of the bigger challenges reported to me by newly-minted retirees is facing the change in relationships with friends, family and spouses/partners.

As a retirement specialist, speaker and author of the best-seller Don’t Just Retire – Live It, Love It! I am constantly informed by clients, audience members and readers of how their relationships altered when they retired and for some dwindled drastically or disappeared completely.

Most people recognize that when they retire, relationships they have with people from work will change or become distant memory. In the beginning, workmates may stay in touch but as months pass, meetings and correspondence often slow down or become nonexistent. Eventually, there are occasional thoughts of connecting but little to no interaction. In retirement, we each must be prepared to forge a new path, letting go of some relationships and building new ones.

When Bill retired from his company, he and his workmates made a pact to stay in touch. In the first weeks of Bill leaving, there was a flurry of e-mails, telephone calls and coffee gatherings. Much of the communication was about work floor occurrences, past memories and enquiries about Bill’s life after work. However, within 6 weeks, the e-mails, calls and coffee invitations began to wane. Though Bill made overtures to stay in touch, his efforts went unrewarded; Bill was devastated. Bill had to face the fact he had to make new friends.

To be successful socially, we need to work at keeping up with current friends and be proactive in seeking new ones.
This means continually going to social events and gatherings, meeting people and sending out positive signals of interest. Take time to introduce yourself and inquire about the other person. Ask open-ended questions about their interests and hobbies and listen to their answers. If you show interest in them, in most cases they will reciprocate and a new relationship is formed. Keep adding people to your list of acquaintances and in time some may join your circle of close friends.

When I was writing Don’t Just Retire – Live It, Love It!, I interviewed hundreds of successfully retired people. During my discussions, most talked about rewarding those people important enough to be part of one’s social circle including, to my surprise, service providers. Obviously we should regularly let our spouse, family members and close friends know how we care for their love and friendship. What was not so obvious to me was the recommendation to give serious consideration to one’s doctor, lawyer, accountant, financial advisor, dentist, spiritual leader and other service providers - to take time to let service providers know how much each of them means to you.

Your service providers provide their professional advice and often add to your peace of mind. A heartfelt ‘thank you’ lets them know your feelings and appreciation of their contribution. Other rewards could include sending a note of thanks or calling them on their birthday. Recognizing people for being in your life is a very personal gesture and how you do it will vary from person to person, relationships to relationship.

At a recent presentation to sixty financial advisors I asked how many had received a note, call or e-mail from a client thanking them for what they do. Of the two hands that were raised, one said when a client thanked him, “I floated! It was such a wonderful surprise.” With the second person who raised her hand, she said “It made my day and I find myself going the extra mile for that person”.

Spousal/Partner Relations

At retirement, one relationship that often changes is with your spouse or partner. In the early and middle years of marriage, couples normally don’t spend a lot of time together. As partners, they are busy making a living, raising a family and fixing up a home. In a recent survey, it was found the average married couple spends only three or four hours a week together without the children and that may be collapsing on the coach and watching TV.
Due to today’s hectic pace, each partner tends to develop his/her own schedule and routine around their work, family and home demands. Then retirement comes and it’s time to relax and enjoy the fruits of your labour, which includes spending quality time with your partner. It’s supposed to be the time when we enrich our relationship, when we do things and go places together. However, a relationship filled with good times is not something that just happens. Like all other aspects of retirement, it requires planning and effort. As part of your plan, it’s important to recognize that you and your partner have built up your own space and privacy needs. Each of you needs time to pursue your own interests, hobbies, tasks or just ‘chill out alone’. One train of thought is if you were apart from your partner eight hours a day during your working days, you should plan to be apart approximately four hours a day in retirement. This enables each partner to have his/her own time and space. Be sure to talk with each other about your individual needs and agree on how those needs can be successfully fulfilled.

As part of your planning, it’s important for you and your spouse to identify to each other what retirement means in terms of roles and responsibilities. By doing this, you create a mini job description; it can outline dates, duties, responsibilities and authorities.

For some couples, however, there is no prior discussion about what retirement means to them and who will take care of the numerous life tasks. This often leads to disastrous results.

Peter was a senior manager for a utility company and was used to telling others what he wanted and by when. His wife Pam was a successful advertising executive. When they retired, both looked forward to a life of relaxation, fun and spending time together in their garden. However, three months into retirement Peter began to criticize Pam’s gardening techniques. He commented on her spacing of plants, the way she waters and fertilizes, her pruning and other gardening flaws. Peter’s nitpicking continued until one day, Pam got so angry she stormed out the door. Peter was shocked when told by a friend that Pam may not come back.
After several discussions with a counsellor, Peter and Pam have reconciled. Peter recognized his need for control and worked at reducing it. He got a part-time job as a dog trainer and has learned not to criticize Pam’s gardening skills.

The essential elements of a happy retirement are feeling valued, being appreciated and loved. When a couple lacks any one of these positive feedbacks, the relationship suffers and the partners drift apart. Accepting the status quo slowly wears away at a couple’s intimacy and bond.

Though it is easy to take each other for granted, the preparation for retirement provides you and your spouse an opportunity to assess and enhance your relationship. Are you thoughtful? Do you express appreciation? Have you a sense of fun and adventure? These traits among others, add to the quality of your relationship and the satisfaction level between you and your partner.

To add spice to your relationship, do little romantic things such as buying flowers, sports equipment or treating your partner to lunch. Say ‘thank you’ to recognize what he/she does for you and your relationship. Spend quality time together and share fun activities. Relationships are like a garden. They require regular care and feeding if they are to grow and become fruitful.

Have a retirement related question? Drop me a note. Contact information on your right.

Richard (Rick) Atkinson is founder and president of RA Retirement Advisors in Toronto, Canada, and the author of the best seller, Don’t Just Retire – Live It, Love It! and the popular workbook, The First Step. Rick’s book is available on his website and is on CARP’s (Canadian Association of Retired Persons) Recommended Reading List. The book is also available in Chapters/Indigo stores and as an interactive app on Apple iTunes. Rick facilitates workshops, offers personal coaching/mentoring and is available for speaking invitations. For more information visit: www.whencaniretire.info or contact him at ramgt@rogers.com.
A new secular bull market?

By Jurrien Timmer, Director of Global Macro

Jurrien Timmer, director of global macro, says history may offer clues. When the Fed ended QE in the 1950s, markets didn’t collapse.

July 2014

The U.S. stock market has hit all-time highs. Does this mean we’re in the emerging stages of a new secular bull market?

Let’s look at past secular bull and bear markets to see whether there are trends and similarities that may give us clues. Two periods stand out as possible analogues: the 1950s and ’60s and the 1980s and ’90s.

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A new secular bull market?

Fed QE in the 1950s

While the period leading up to the secular bull market of the 1950s and ’60s was quite different in some ways from the current one, there are notable similarities. One is the persistent deflationary mindset that existed at the time, despite extreme periods of war-related inflation. Also, and perhaps most important, it was an era of QE from the Fed.

Yes, you read that right. While it is a common belief that the Fed’s QE since 2008 is unprecedented, in fact it isn’t. From the mid-1940s to the early ’50s, the Fed capped bond yields by buying most of, if not all, the Treasury supply. That’s QE in almost everything but name. As a result, interest rates remained remarkably low and stable despite wild swings in inflation.

What’s also interesting is that, despite these swings in inflation, investors didn’t challenge the interest-rate caps. One would assume investors would not want to hold long bonds yielding less than 3% when inflation was at 25%, but that’s exactly what they did. That’s how powerful the deflationary mindset was at the time.

Another compelling aspect of this analogue is that when the Fed finally stopped manipulating the bond market, the world did not end. Currently, with the Fed presumably ending QE, there’s a belief among some investors that the market is a house of cards that will collapse as soon as the Fed stops printing money.

However, the ’50s analogue seems to disprove that theory. Although interest rates did start to rise from the early ’50s through the late ’70s, the stock market went up—a lot—for the first 20 years of that cycle. From the 1949 launch to the 1968 secular peak, the S&P 500 racked up an annualized return of 16%.

1980s and ’90s: above-average returns

As in the 1950s and ’60s, the secular bull market of the ’80s and ’90s ran close to two decades. It also delivered similar above-average returns, of about 20% per year. But there are several differences to consider, particularly the level and direction of interest rates.
A new secular bull market?

The early 1950s marked the end of WWII repression and the beginning of a secular bear market in Treasury yields, from 2.5% to more than 5% in the late ’60s, and ultimately to double digits in the late ’70s. The 1982 to 2000 period was the opposite. It was an era of disinflation, and long-term yields fell from 13% in 1981 to 5% in 2000.

But...

While the resemblance of current market dynamics to those of previous secular bull markets is cause for optimism, there are also potential impediments—particularly the differences in demographics. Back in the 1950s and ’60s, and also during the ’80s and ’90s, the post–World War II and baby boom generations, respectively, were in full swing—buying homes, investing, and spending money. But most of the post-WWII generation is retired, baby boomers are heading into retirement, and the demographic wave has now reversed. As a result, this trend might render the years ahead as less likely to sustain the kind of growth that occurred during previous secular bull markets.

Then there’s the federal debt: from 1949 to 1968, the U.S. debt-to-GDP ratio fell from 82% to 43%. From 1982 to 2000, it held steady, at around 40% to 46%. But since March 2009, it has risen from 68% to just over 100% (as of June 9, 2014). Such a high level of debt could put the U.S. at risk of several unfavorable consequences, such as lower GDP growth.

A common theme: more up than down

So, what’s the key takeaway from all this? While each of the two historical secular bull markets was unique, they shared a common theme. They both spanned almost two decades in which the market went up a lot more than it went down. The early ’50s are of particular interest, because the Fed was engaged in a form of QE then, as it is now, but when the central bank stopped manipulating interest rates, the stock market did not collapse—yet this is a common fear today. There may be an important lesson here.

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Courtesy: Fidelity Investments Canada.
In my “An Optimist’s Bonanza” article (Nov/Dec 2013) I wrote “Global economic recovery, housing recovery in the US, and monetary policies among the major central banks have helped the strong stock market performance around the globe and for now the sky looks clear”. Since then major markets around the world have moved up considerably well.

In today’s article I am updating a few numbers as I still see the markets as quite strong. All the available data is showing signs of improvement so the “the sky still looks clear”.

The Bureau of Labor Statistics’ reported recently that the U.S. added 288,000 jobs in June. The latest job reports also showed that the unemployment rate fell to 6.1% from 6.3%. Non-farm payrolls are growing by 224,000 in May, better than the previously reported 217,000.

Global mergers and acquisitions (M&A) activity has heated up considerably in 2014. Consolidated deal value as of Jun 26, 2014 has increased 75% year over year to $1.75 trillion, as per Thomson Reuters data. This marks the highest level since deal value reached $2.28 trillion in 2007. What caused the M&A activities? Large amounts of cash on corporate balance sheets, favorable credit markets, low interest rates, and strength in the stock market have helped. Some of the most notable deals include Facebook, Inc’s $19.0 billion buyout of WhatsApp and Actavis plc’s acquisition of Forest Laboratories for $25.0 billion.
DOW at 17000 and still looks strong

Monthly jobs growth
Nonfarm payrolls, in thousands

Recession period

June: 288,000

Source: Labor Department
Furthermore, Medtronic Inc, the world’s largest medical devices maker, acquired its Irish rival Covidien Public Limited Company for $42.9 billion. The telecom industry also witnessed two mega bids — Comcast Corp.’s $45.0 billion offer for rival Time Warner Cable Inc. and AT&T, Inc.’s $48.5 billion bid for DIRECTV.

On the flipside the 1Q2014 revised U.S. GDP growth rate came as a surprise; down 2.6%. In addition, average daily trading volume in the stock markets is falling. Since 2009 the average daily volume has fallen from 12.3 billion per month to 5.8 billion in May. The bulls don’t want to accept this as a sign of weakness so they argue that high frequency trades now account for 48.5% of overall U.S. stock-market volume, down from 61% in 2009. At the same time, buying and holding ETFs are generating very good results; investors are investing more into passively managed ETFs or funds. As a result, the actively managed funds which have higher trading than ETFs are shrinking. There are numerous other findings to consider but the key idea here is that there is no need to be fearful for falling trading volumes.

As it stands right now the stock market’s valuation is neither overvalued nor undervalued. It’s just fairly valued. The chart below shows that currently the S&P 500 standing at 16.5x P/E; one of the most popular valuation ratios used by the industry, is below the historical highs. Also, as companies are growing; their P/E ratio, which remains fairly in this range, protecting markets to become overvalued.

![S&P 500 Index and Valuations](image-url)
DOW at 17000 and still looks strong

Meanwhile Europe and China are also improving. Economic sentiment in China improved slightly in June. Both the national purchasing managers’ index for the manufacturing industry and the one published by HSBC and Markit point towards a moderate economic acceleration, with the indices up to 51 and 50.7 points respectively.

When stock markets and global economy are doing well focus will be on 2Q2014 earnings, which has just started. It’s too early to comment on the 2Q earning season but analysts polled by Reuters are calling for earnings growth for the second quarter of 6.2 percent, and a return to double digits in the third and fourth quarters: 10.9 percent and 11.9 percent, respectively.

So far I don’t see any major developments anywhere that could cause the markets to make a major correction (10% or more) but stock markets are sensitive to different things: geo-political issues, the economy, and central bank moves are to name a few. We will keep our eyes open, but the charts look very impressive and intact.

Source: FT, Economist, Business Week, Reuters, FP, WSJ, Stock Charts