2016 Fourth Quarter Summary

Happy New Year and we wish you continued health and prosperity during 2017.

This summary will be broken down into three segments including a review of our investment process, an overview of the markets globally and our portfolios during 2016.

Process Overview

The great financial crisis of 2008 is now a distant memory for most investors as the global stock markets have now enjoyed one of the longest bull markets since 1900. The current bull market which began in March 2009 is now 92 months in duration, while the average since 1900 is approximately 41 months. Given this extended bull market it is easy to forget the peak to trough 50% market decline during 2007-2009. The bear market of 2000-2003 also experienced a decline of 50%, while the average bear market decline is approximately 30%.

With this bull market being more than twice the average duration, it is easy to forget the angst and anxiety created during bear markets especially for those approaching retirement or currently retired. While bear markets are a normal and recurring event over time, they cause investors to become irrational and emotional. As a result, investors often make poor investment decisions – often selling at the worst possible time.

To help minimize this behavior we created a number of global portfolios that adapt to changing market conditions, as well as utilize a variety of assets classes beyond traditional stocks and bonds. Global exposure is important as it provides opportunities beyond Canada's borders. Canada represents just 3% of the world stock markets market capitalization, and has produced approximately 1/3 of the the returns of the S&P 500 in Canadian dollars during the past five years.

Our process focuses on the universal law of supply and demand. Assets with demand exceeding supply will rise in value, and will fall when supply exceeds demand. As demand and supply is constantly changing our process measures these changes and adjusts the portfolios accordingly.

The process works exceptionally well over time. It works best when there are long term trends occurring within the various markets. However, it is less effective when the markets rotate from one asset to another, or during choppy or trendless markets. More on this later.

The goal of the process is to minimize the portfolios downside volatility, while aiming to capture most of the upside returns.

Market Overview

For nearly 30 years the long term trend for interest rates has been primarily down. As a result, bonds have been a favoured asset class for many years. As interest rates fall, bonds appreciate in value. Since 2008, the Canadian Bond Benchmark has enjoyed annual returns of 4.5%(1). However, in 2016, the return was just 1.02%. These returns can be partially explained by the influence of the Federal Reserve (Fed) in the U.S. In December of 2015 and 2016 the Fed raised interest rates, and has forecasted at least three hikes in 2017. With the prospect of higher rates state side, longer duration bonds in Canada and the U.S have sold off from their mid-year highs. While it is too early to tell if the long term trend in interest rates will continue to be up, the recent price action in the long end of the bond market suggests that caution is warranted.

Unlike 2015, when many commodity producing economies produced significant negative returns, 2016 produced positive returns of 17.5%, 39%, and 52% for the S&P/TSX, Brazil, and Russian markets respectively (excluding dividends)((2). All U.S markets produced positive returns with the Dow posting the best results of 13%. Many European markets produced much more modest returns, while India and Shanghai index produced negative returns.

After a very difficult 2015, almost all major commodities enjoyed significant positive returns in 2016 with the Brent Crude and Zinc each rallying more than 55% in U.S dollars. While many commodities enjoyed double digit growth, gold rallied only 8%. (2)

Portfolio Overview

We utilize a variety of asset classes and stock portfolios within our Global Growth, Balanced and Income Portfolios. The actual percentage of the portfolio allocated to each asset class changes throughout the year depending on the relative demand and supply of each asset class. As you would expect, some of the asset classes produced positive returns while others produced negative.

Asset Class	Equity Portfolio Weight %	Growth Portfolio Weight %	Balanced Portfolio Weight %	Income Portfolio Weight %	2016 Results (Before fees)
US Stock Portfolio (CDN$)	30%	20%	15%	10%	14.1%
Canadian Growth & Income Stock Portfolio	30%	20%	15%	10%	8.1%
Rotation Portfolio	40%	30%	30%	14%	2.9%
Bond Portfolio	0%	8%	18%	48%	1.4%
Canadian Alternative Asset	0%	9%	9%	5%	-6.5%
Preferred Shares (Beginning Aug 08, 2016)	0%	13%	13%	13%	2.6%
Total	100%	100%	100%	100%	

In each of our Global portfolios we maintain a number of core positions including Canadian stocks, U.S. stocks, bonds and preferred shares. As well, the portfolios have a “rotation” portion that is dependent on the supply and demand relationship of the various asset classes we monitor. The top three asset classes globally garner additional weightings, and change over time when the demand changes. As well, we had an allocation to alternative assets including Gold, Real Estate Investment Trusts (REITs) and Managed Futures.

Since December 11, 2014, bonds have captured the number one ranking of all available asset classes we monitor in the Rotation Portfolio. Interestingly, almost two years later, on Sept 12, 2016, bonds lost their top ranking falling to second place, and again falling to 3rd place on December 13, 2016. This is an excellent example of an asset class maintaining a long term trend for almost two years. It is also an excellent example of how quickly a trend can end, and the importance of adjusting the portfolios as demand shifts. While the position was profitable during the two year trend, having an overweight towards bonds as the leadership in asset classes changed, can and did, cause a short term drag on the Global Portfolios performance during the last third of 2016.

With interest rates approaching zero in Canada, and the domestic performance of bonds weakening, we reduced our exposure to long Canadian bonds for shorter bonds and also reduced our bond exposure in favour of Canadian preferred shares. All of the preferreds offer attractive upside yields should interest rates rise in Canada over the next five years. The current yield on the preferred share component is approximately 4.9%, and the income in taxable accounts is eligible for the dividend tax credit.

Our Global portfolios maintain a core position in Canadian and U.S. stocks. Since introducing individual Canadian stocks in 2013, the core Canadian component has always been the Canadian Growth and Income Portfolio. At that time we also created a more focused growth portfolio, the Canadian Focused Growth Portfolio. The latter selects stocks from the S&P/TSX 60, but offers less diversification, and has experienced modestly more downside volatility during bear markets. However, the past returns have rewarded those investors willing to accept both tradeoffs. While we will continue to offer both Canadian portfolios for the foreseeable future, approximately 90% of our clients use the Canadian Focused Growth Portfolio as their Canadian core stock position. Given this, we will use this portfolio for reporting our results within all the Global Multi Asset portfolios going forward.

The alternative investments in gold, REITs and Managed Futures collectively produced negative returns for the Global Portfolios during 2016.

2017 Forecast

Few predicted Donald Trump’s U.S. Presidential win, nor the 50% recovery in Brent Crude prices during 2016. Predicting the future is difficult at best, if not futile. The markets will do what they do. What is important is having a game plan to manage the ever changing conditions within the financial markets. Whether this bull market continues for another year or longer, or whether a new bear market emerges from its cave, we are confident that our investment process will effectively manage whatever is delivered.

We look forward to helping you achieve your goals and dreams in 2017. If you have any questions regarding this summary, or your investment portfolio, please call us.

Sincerely

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(1) iShares Broad Bond Index ETF
(2) BMO Wealth Management – Local currency