2014 Fourth Quarter Summary

Welcome to our first podcast of 2015. To begin, I would like to wish you all a Happy New Year and thank you for the opportunity to assist you in realizing your financial dreams and objectives. After 28 years with BMO Nesbitt Burns, I am especially grateful for the trust you have placed with our team. I am hopeful that 2015 will provide you with health, happiness and financial success.

This summary will be broken into three segments including a market overview, a portfolio overview and our 2015 Forecast.

Market Overview

There were a number of big stories in the global markets in 2014, but few were as big as the unexpected decline of oil prices worldwide. Brent crude oil reached a high of $115, only to decline by 53% by year end as world supplies of oil outpaced demand. Commodity sensitive markets such as the S&P/TSX had enjoyed returns as high as 15% mid-year, only to see those returns virtually eliminated by the end of November. Fortunately, the December rally was enough to lift the Toronto market to year end gains of 7.4%.

Other oil producing markets were hit especially hard including Russia, Venezuela and Iran. The Russian stock market declined 45% and was significantly impacted by declining oil prices and sanctions for Russia’s involvement in the Ukraine conflict.

The news was not all bad during 2014. The Chinese Shanghai Composite and the Indian Sensex lead the major markets globally with gains of 58% and 33% respectively. However, returns in 2014 were somewhat muted compared to 2013. European stock markets gained approximately 2-3%, while the London FTSE actually declined by approximately 3%.

In the United States, Janet Yellen took over for Ben Bernanke as the Chair of the Federal Reserve, and the first woman to hold the position. You may recall the Fed had been using a tool known as Quantitative Easing (QE) to stimulate economic growth in the U.S. In October of 2014, the U.S economy was strong enough to support itself, and Yellen announced the end of QE3. With the U.S. economy expanding significantly, the S&P 500 and the Nasdaq markets posted reasonable returns of 11% and 13% respectively.

Other notable corporate events in the global markets included the largest Initial Public Offering (IPO) ever of Chinese web service provider Alibaba and the departure of Pimco’s bond guru Bill Gross to join Janus Capital. In Canada, the biggest story of the year was Burger King’s takeover of iconic Tim Horton’s.
Portfolio Overview

Throughout the year we are often queried about our investment approach. Some clients find certain aspects of our approach confusing, so it is worthwhile discussing the investment process, as well as its strengths and weaknesses.

The price of all assets is simply a function of the universal law of supply and demand. Those assets with the highest demand will rise in price (i.e. Toronto real estate), while assets experiencing an oversupply or weak demand will fall in price (i.e. global oil prices).

The goal of our approach is to identify which assets and individual stocks are experiencing the greatest demand and allocate our resources to those leaders. Our approach works best when longer term demand persists, and works less well in choppy or sideways markets. 2013 illustrates the power of longer term stock market trends, while 2014 proved to be very choppy, especially in the U.S.

Our goal is to construct portfolios that have a variety of asset classes other than just stocks and bonds. Doing so reduces the portfolios downside volatility and enhances returns over longer periods of time.

<table>
<thead>
<tr>
<th>Balanced Portfolio - Asset Class</th>
<th>Portfolio Allocation %</th>
<th>2014 Return (Gross of fees)</th>
</tr>
</thead>
<tbody>
<tr>
<td>US Growth Portfolio</td>
<td>15%</td>
<td>14.64%</td>
</tr>
<tr>
<td>Canadian Growth and Income Portfolio</td>
<td>15%</td>
<td>12.94%</td>
</tr>
<tr>
<td>Rotation Portfolio</td>
<td>30%</td>
<td>4.30%</td>
</tr>
<tr>
<td>Bond and Preferred Shares ETFs</td>
<td>32%</td>
<td>3.59%</td>
</tr>
<tr>
<td>Managed Futures ETF</td>
<td>4%</td>
<td>-1.27%</td>
</tr>
<tr>
<td>Commodity ETF</td>
<td>4%</td>
<td>-7.10%</td>
</tr>
<tr>
<td>Total</td>
<td>100%</td>
<td>6.24%</td>
</tr>
</tbody>
</table>

As expected, a number of the asset classes produced positive absolute performance, while the Managed Futures and Commodity positions produced negative returns. While most investors would like all their assets producing positive returns each year, our goal is to combine a variety of asset classes that ideally do not move in the same direction at the same time.

2014 was an interesting year for our individual stock portfolios in Canada and in the U.S. As in 2013, our Canadian stock portfolios benefitted from the continued leadership of growth stocks including Canadian National Railways, Canadian Pacific Railways and Magna to name a few.

The U.S markets experienced much greater volatility and more frequent leadership changes than in 2013. In this environment, our process tends to
underperform the index, and this was our experience in 2014. Fortunately, some of this underperformance was offset by the decline in the Canadian dollar. At some point in the future, new leadership and trends will be established as companies create new products and services or reorganize to become efficient and profitable. When this occurs, our process will be well positioned to benefit.

You can view all of our individual portfolio [here](#).

In our Balanced portfolios, one of the largest asset positions is bonds and preferred shares. We utilize bonds to generate income, as well as to help offset some of the volatility of other assets, primarily stocks. The perception of many is that bonds are “safe”, but that depends on a number of factors including credit quality and duration. In this portion of the portfolio, we have chosen to minimize the risk to rising interest rates, so we have kept our maturities fairly short. As a result we are better protected if interest rates rise, but we also did not benefit from interest rates falling surprisingly in 2014. With interest rates near record lows, we will continue to minimize the risk to rising rates which will eventually occur.

2015 Forecast

Few predicted a 50% decline in Brent Crude in 2014, and even fewer predicted lower interest rates in North America, so the value of forecasts is limited. What is certain in 2015 is that there will be tremendous investment opportunities in a variety of asset classes globally, and the universal law of supply and demand will determine the winners and losers. We will continue to measure these shifts with the goal of minimizing portfolio risk and downside volatility, while delivering returns consistent with your expectations.

If you have any questions regarding your investment portfolio, please call us.

Sincerely,

The Ferrie Wealth Management Group

David Ferrie, Portfolio Manager, Managing Director
T: 416-590-7667  david.ferrie@nbpcd.com

Anthony Petruccelli, Associate Portfolio Manager, Financial Planner
T: 416-590-7675  anthony.petruccelli@nbpcd.com

Gabriela Boada, Investment Representative
T: 416-590-7637  gabriela.boada@nbpcd.com

Tim Simpson, Estate & Insurance Advisor
T: 416-359-7798  timothy.simpson@nbpcd.com