

SEPTEMBER 2013 NEWSLETTER



Ian Douglas

Market Review

The third quarter of 2013 has been positive for equity investors, with both the U.S. and Canadian markets participating on the upside.

The most challenging sectors have been “safe” sectors where rising bond yields have caused corrections in bonds, preferred shares, utilities, telecoms, REITS and pipeline stocks. These are valued as steady income producers and as bond yields rise their cash flows look less attractive by comparison.



Mark Duncan

	<u>Sept 28/12 Close</u>	<u>June 28/13 Close</u>	<u>Sept 30/13 Close</u>	<u>90-Day % Change</u>	<u>1-Year % Gain</u>
S&P 500	1,440	1,606	1,682	4.7%	16.8%
TSX 300	12,317	12,129	12,787	5.4%	3.8%



Lisa Cajolet

<u>World Indexes</u>	<u>YTD %</u>
S&P/TSX	2.8%
S&P 500	17.9%
DJIA	15.5%
NASDAQ	24.9%
DJ Stoxx 50	7.8%
Japan	39.3%
Hong Kong	0.9%
MSCI Emerging Markets	-6.4%

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Fixed Income

The bond correction that started on May 22nd continued this quarter, with interest rates rising.

Most of our corporate higher yielding bonds have held in very well, but the preferred share indexes have corrected by 2.56% year to date, and the preferred shares that we hold have corrected as well. Year to date the best fixed income investment has been daily interest accounts. So while many of you have been frustrated having so much of your portfolios in daily interest accounts, these have protected you from losses in bonds and given you “dry powder” for when opportunities inevitably start to surface.

There are now a few good opportunities in the bond and preferred share markets, while 3, 6, and 9 months ago there were virtually none. Some of these opportunities are thinly traded so we have to buy them very gradually so we don't bid the prices up.

<u>Investment</u>	<u>Sept</u> <u>Performance</u>	<u>2013</u> <u>Performance</u>
CIBC Global Bond	-1.04%	-0.91%
BMO World Bond	-0.29%	-0.55%
DEX Universe Bond Index Fund	0.30%	-1.81%
TD Canadian Bond	0.35%	-2.12%
Fidelity Canadian Bond	0.33%	-2.58%
AGF Emerging Markets Bond	0.28%	-4.59%
PIMCO Canadian Total Return Bond	0.09%	-3.52%
RBC Global High Yield Bond	1.97%	-2.27%
BMO S&P/TSX Laddered Preferred Share Index Fund	-0.01%	-2.61%
iShares S&P/TSX Canadian Preferred Index Fund	0.25%	-2.56%

Canadian T-Bills and Bonds

	<u>Mar. 28,</u> <u>2013</u>	<u>Jun. 28,</u> <u>2013</u>	<u>Sept. 30,</u> <u>2013</u>
90 day	0.96%	1.01%	0.98%
180 day	1.00%	1.04%	1.00%
1 year	1.02%	1.11%	1.06%
2 year	1.002%	1.20%	1.20%
5 year	1.305%	1.25%	1.88%
10 year	1.874%	2.44%	2.56%
30 year	2.503%	2.91%	3.09%

U.S. T-Bills and Bonds

	<u>Mar. 28,</u> <u>2013</u>	<u>Jun. 28,</u> <u>2013</u>	<u>Sept 30.,</u> <u>2013</u>
90 Day	0.065%	0.03%	0.02%
180 Day	0.085%	0.09%	0.04%
1 year	0.090%	0.14%	0.09%
2 year	0.246%	0.36%	0.32%
5 year	0.761%	1.39%	1.40%
10 year	1.850%	2.49%	2.63%
30 year	3.104%	3.50%	3.70%

International 10 Year Bond Yields

	<u>Mar. 28,</u> <u>2013</u>	<u>Jun. 28,</u> <u>2013</u>	<u>Sept. 30,</u> <u>2013</u>
Japan	0.51%	0.84%	0.66%
U.S.	1.85%	2.49%	2.63%
Germany	1.29%	1.73%	1.78%
Canada	1.87%	2.43%	2.56%
U.K.	1.719%	2.44%	2.71%
France	2.035%	2.34%	2.32%
Spain	5.06%	4.75%	4.29%
Italy	4.76%	4.54%	4.57%
Ireland	4.23%	4.01%	3.89%
Portugal	6.37%	6.32%	6.53%
Greece	12.44%	10.62%	8.88%

Income Producing Equities

The trend from last quarter has continued, with the interest sensitive shares (REITs, Pipelines, Utilities) continuing to weaken and companies that benefit from rising rates (banks and insurers) hitting new 52 week, and in some cases, all-time highs.

Fortunately 6 out of 10 of our largest equity positions are banks and insurers, so most of your portfolios are participating well in this environment.

<u>Equity</u>	<u>52 Week High</u>	<u>June 28, 2013</u>	<u>Sept 30, 2013</u>	<u>% Change from June 28</u>	<u>Yield</u>
Telus Corporation	\$37.94	\$30.70	\$34.14	11.2%	3.98%
Toronto Dominion Bank	\$93.20	\$84.47	\$92.74	9.8%	3.69%
Royal Bank of Canada	\$67.00	\$61.28	\$66.00	7.7%	4.03%
Power Financial Corporation	\$33.25	\$30.58	\$32.05	4.8%	4.36%
BCE Inc.	\$48.90	\$43.12	\$44.02	2.1%	5.30%
Brookfield Infrastructure	\$42.02	\$38.38	\$39.18	2.1%	4.55%
Manulife Financial Corp.	\$18.74	\$16.83	17.04	1.2%	3.02%
Wells Fargo & Company	\$44.78	\$41.27	\$41.32	0.1%	2.91%
TransCanada Pipeline	\$51.21	\$45.28	\$45.25	-0.1%	4.07%
Enbridge Inc.	\$49.17	\$44.21	\$43.02	-2.7%	2.93%
Riocan REIT	\$29.60	\$25.27	\$24.30	-3.8%	5.83%
H&R REIT	\$25.40	\$22.04	\$21.19	-3.9%	6.36%
Brookfield Renewable Energy	\$32.02	\$29.05	\$27.52	-5.3%	5.43%

Our Nanaimo Team

Lisa has completed all of her courses and is now a licensed assistant who can take un-solicited orders should you call in. Mark has shown himself to be a valuable addition and has been assisting with calling clients when opportunities arise.

Outlook

There are plenty of uncertainties in the market currently between U.S. political wrangling over their debt ceiling and questions as to when the U.S. Federal Reserve will taper, potentially increasing interest rates further. This will likely keep the rate of economic growth at a simmer.

In this environment I am not recommending any heroic portfolio changes, but will continue to look for and recommend income producing bonds, preferred shares and equities.

If you have any questions regarding your portfolios, please call myself or Mark and we can make sure that your portfolio is appropriately balanced for the current market within the context of your financial needs.



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